

LEGISLATIVE BUDGET ANALYSIS

2007 Biennium

Volume 5: Governor Schweitzer Budget Revisions

Presented to the Fifty-ninth Legislature

Submitted by
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MONTANA LEGISLATIVE BRANCH

Legislative Fiscal Division

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January 2005

Members of the Fifty-ninth Legislature:

In accordance with the provisions of 5-12-302, MCA, I submit for your consideration Volume 5 of the Legislative Budget Analysis. Volume 5 is a fiscal analysis of Governor Schweitzer's amendments to Governor Martz's Executive Budget. This analysis is based on the "Governor-Elect's Budget" document dated December 28, 2004 and the "Amendments to Governor Schweitzer's 2007 Biennium Executive Budget" document submitted January 7, 2005, plus the electronic data provided by the Governor's Budget Director on January 7 and 8.

This volume addresses the Schweitzer revisions to the Martz executive budget, and is a supplement to Volumes 1 through 4, our analysis of the Martz budget. An addendum to this volume, "Agency Budgets: Schweitzer Revisions", contains the detailed agency budget recommendations and LFD comments and issues that are summarized in this document.

We express our appreciation to Budget Director Dave Ewer and the staff of the Office of Budget and Program Planning for their cooperation during this budget analysis process.

Respectfully submitted,

Clayton Schenck
Legislative Fiscal Analyst

TABLE OF CONTENTS

Volume 5: Governor Schweitzer Budget Revisions

Table of Contents	i
Overview: GOV. SCHWEITZER BUDGET REVISIONS/PRIORTIES.....	1
General Fund Recommendations	1
General Appropriations (HB 2) Summary	4
General Fund Projection.....	7
2005 Biennium Projection	7
2007 Biennium Projection	9
Gov. Schweitzer 2007 Biennium Budget Highlights.....	13
Introduction	13
Biennial Budget Comparison.....	13
Schweitzer Budget by Program Area - General Fund.....	16
Schweitzer Budget by Program Area - All Funds.....	18
Schweitzer Budget by Fund Source.....	20
Schweitzer New Initiatives	22
Schweitzer One-Time-Only Expenditure Proposals.....	24
Fund Switches.....	26
Schweitzer Statewide (Non-HB2) Budget Proposals.....	27
Supplemental Appropriations	27
Executive Pay Plan Proposal	29
Revenue Proposals.....	30
Defined Contribution Loan Payoff (HB 36).....	32
Schweitzer Budget Revisions – Other LFD Issues.....	33
K-12 Lawsuit	33
I-149: Cigarette and Tobacco Tax Increases	34
Structural Balance.....	35
Expenditure Limitation.....	37
Fund Balance Adequacy/Reserves	40
Agency Budget Revisions	41
Table of Agency Budget Revisions	41
Index for Volume 5	43



OVERVIEW: GOV. SCHWEITZER BUDGET REVISIONS/PRIORTIES

GENERAL FUND RECOMMENDATIONS

As provided for in section 17-7-121, MCA, incoming Governor Schweitzer issued proposed revisions to the original Governor Martz budget for the 2007 biennium. Figure 1 below compares the general fund recommendations contained in the Martz and Schweitzer executive budgets. As the figure shows, the Schweitzer budget revisions include nearly \$83 million general fund in net additional increases to the Martz budget. In addition, Governor Schweitzer's revisions include some re-prioritizations of the Martz proposals. The most significant change in the Schweitzer revision is over \$74 million in additional program funding, of which over \$40 million is for support of public schools, \$7 million is for economic development, and over \$10 million is for increased support of human services programs. Additionally, the Schweitzer revisions propose additional expenditures (supplementals) in the current biennium (FY 2005), primarily to pay off existing obligations (loans and litigation settlements) with one-time funds. The Schweitzer proposal adds over \$10 million in general fund revenue estimates to include the impact of I-149 (the tobacco and cigarette tax initiative) and adds over \$6 million to the state employee pay plan for a negotiated settlement with the state employee unions that is above the 3 percent per year increase proposed by Governor Martz. The total funds increase in the Schweitzer revisions is over \$117 million. Each of the general fund changes in Figure 1 is summarized below. This is followed by a more detailed overview of the primary category of revisions, general appropriations (\$74.2 million), beginning on page 4. Other significant changes are discussed in more detail in the remaining sections of this volume.

What Changed	
General Fund Balance Comparison	
Schweitzer vs. Martz Executive Budget (In Millions)	
Change in Beginning Fund Balance	(\$2.380)
Revenue Changes	
Estimated Revenue	10.300
Revenue Proposals	(0.551)
Disbursement Changes	
General Appropriations	74.239
Human Services	10.362
Corrections	0.000
Higher Education	2.943
Public Schools	40.779
Other Agencies	20.155
Fiscal Year Switch (DOR,DNRC)	(22.900)
Supplemental Requests	36.340
Statutory Appropriations	(1.398)
Transfers	(5.700)
Employee Pay Proposal	6.067
Other Appropriations	2.748
Adjustment Changes	(0.940)
Change in Ending Fund Balance	(\$82.967)

Figure 1

Beginning Fund Balance

The Legislative Auditor recommended that the executive correct the Comprehensive Annual Financial Report (CAFR) for various accounting entries made or not made in FY 2004. Among the net \$2.38 million recommendations concurred in by the executive was to correct a \$3.6 million transfer to the mineral impact account that was made in FY 2005, but which should have been made in FY 2004.

Estimated Revenues

The executive revised its estimates to include the impacts of I-149, the tobacco and cigarette tax increase initiative. The Martz budget revenue estimates did not include the impacts of I-149.

Revenue Proposals

The Schweitzer budget recommends two additional measures to increase general fund revenue: 1) increase tax auditors in the Department of Revenue; and 2) re-authorize the \$10 district court fee for technology. These increases are offset by revenue decreases for the Governor's economic development plan and for providing cost exemptions for commitments to the Montana State Hospital made by tribal courts. For a further discussion of these four proposals, see page 30.

General Appropriations – HB2

Governor Schweitzer's proposed expenditure revisions increase general fund expenditures by \$74.2 million, with over 75 percent of those increases going to direct state aid to public schools (\$35.5 million), the Low income Energy Assistance Program (\$8.4 million), economic development (\$7.0 million), and a higher education student assistance scholarship program (\$5.0 million). A summary of major proposals for this category, classified by major program area, is presented beginning on page 4.

Fiscal Year Switch

Governor Schweitzer recommends that the Crow Tribe Settlement and a portion of the Integrated Revenue Information System (IRIS) payoffs occur in FY 2004 rather than in the 2007 biennium as recommended by Governor Martz (see "Supplemental Requests" below).

Supplemental Requests

Governor Schweitzer proposes \$13.4 million in additional supplemental appropriations for the current FY year (2005), including \$8.5 million as a proposed settlement for a lawsuit against the state by highway patrol officers. In addition, the Schweitzer revisions transfer to FY 2005 an additional \$22.9 million of expenditures that were included in the Martz budget for the 2007 biennium. These transfers include \$9.0 million for payoff of the Crow Tribe settlement and \$13.9 million to pay off a Department of Revenue loan for a computer system (IRIS). See page 27 of this report for additional information about the proposed \$36.3 million in supplemental appropriations for FY 2005.

Statutory Appropriations

Adjustments were made in the Schweitzer budget to reflect more current estimates of debt service obligations and payments to retirement funds and to reclassify proposed new statutory appropriations (see "Other Appropriations" below).

Transfers

Since the Martz budget included the \$3.6 million transfer to the mineral impact account as an adjustment to the statewide financial report (see "Beginning Fund Balance" on page 1), the Schweitzer budget removed the same amount from non-budgeted transfers. The Schweitzer budget also removed the estimated amounts of transfers to pay borrowing costs for job credits (HB 546 from the 2003 session).

Employee Pay Proposal

Governor Schweitzer reached a collective bargaining agreement with state employee unions that increases the proposed pay plan for state employees from a 3 percent increase each year to 3.5 percent in FY 2006 and 4 percent in FY 2007, and establishes a minimum increase of \$1,005 and \$1,188 for each fiscal year, respectively. The changes result in a biennial increase of just over \$6 million general fund. Both the Martz and Schweitzer pay plan proposals include an increase for insurance that covers annual insurance plan projected increases. A discussion of the revised pay plan proposal is on page 29 of this report.

Other Appropriations

The Schweitzer budget proposes to pay \$1.4 million to the Public Employees Retirement System for start-up costs incurred by the new defined-contribution plan (HB 36). In addition, proposed statutory appropriations to reimburse local governments for revenue (lost as the result of increasing the class eight property tax exemption from \$5,000 to \$20,000 and to transfer money to the highway patrol retirement fund) increase expenditures \$1.3 million.

GENERAL APPROPRIATIONS (HB 2) SUMMARY

The following figure summarizes the major HB 2 proposals by Governor Schweitzer, by program area.

Budget Changes - Governor Schweitzer to Governor Martz General Appropriations Act (HB 2) 2007 Biennium					
Functional Area	General Fund	State Special	Federal	Total	Volume 5 Addendum Page #
Public Schools					47
Increased Entitlements/Spec Education	\$30,670,095	\$0	\$0	\$30,670,095	50
School Facilities Payments	4,775,684			4,775,684	50
Education Information Database Development	2,826,000			2,826,000	48
Indian Education for All	1,504,095			1,504,095	47
Replacement of Reduced I&I Revenue	<u>1,003,295</u>			<u>1,003,295</u>	50
Subtotal Public Schools	\$40,779,169	\$0	\$0	\$40,779,169	
Human Services					15
Low Income Energy Assistance (LIEAP)	\$8,400,000	\$0	\$0	\$8,400,000	20
Replace Tobacco Settlement with General Fund	3,524,396	(3,524,396)		0	Various
Foster Care Increase	2,000,000			2,000,000	22
Other Changes	(19,653)	(1,807,709)	(762,232)	(2,589,594)	15-25
Tobacco Prevention Program	(367,983)	9,033,093	0	8,665,110	23
Increase CHIP Enrollment to 13,900	(3,175,300)	7,337,251	13,054,184	17,216,135	16,24
Cigarette Tax (I-149) Programs	<u>0</u>	<u>45,200,000</u>	<u>0</u>	<u>45,200,000</u>	<u>16</u>
Subtotal Human Services	\$10,361,460	\$56,238,239	\$12,291,952	\$78,891,651	
Higher Education					55
Student Assistance	\$5,000,000	\$0	\$0	\$5,000,000	56
Tribal College Tuition and Direct Assistance	2,803,500			2,803,500	60
Replacement of Reduced 6 Mill Revenues	42,499	(42,499)		0	59
Reduce Martz Shared Leadership Funding	<u>(4,903,528)</u>			<u>(4,903,528)</u>	58
Subtotal Higher Education	\$2,942,471	(\$42,499)	\$0	\$2,899,972	
Corrections					
Eliminate Inmate Fund	<u>\$0</u>	(\$720,000)	\$0	(\$720,000)	41
All Other					
Continue Court Information Technology Automation	\$3,870,000	\$0	\$0	\$3,870,000	2
Various Economic Development Initiatives**	7,000,000	2,971,000		9,971,000	5,35,36
Water Adjudication Acceleration	2,000,000			2,000,000	33
Environmental Site Remedial Investigation and Feasibility	2,000,000			2,000,000	29
Additional Revenue Auditors to Generate Revenue	1,120,000			1,120,000	9
Miscellaneous Other Governor's Office	2,098,000	380,000	(187,975)	2,290,025	4
Restore Agricultural Heritage Program	800,000			800,000	33
Miscellaneous School for Deaf and Blind	500,000			500,000	53,54
National Guard Scholarship Program	500,000			500,000	43
Miscellaneous Other	<u>266,998</u>	<u>(9,994,219)</u>	<u>34,998</u>	<u>(9,692,223)</u>	Various
Subtotal All Other	\$20,154,998	(\$6,643,219)	(\$152,977)	\$13,358,802	
Total 2007 Biennium Changes	\$74,238,098	\$48,832,521	\$12,138,975	\$135,209,594	
Move part of Department of Revenue System Payoff to FY 2005	(\$13,900,000)	\$0	\$0	(\$13,900,000)	
Move Crow Tribe Settlement Payoff to FY 2005	<u>(9,000,000)</u>			<u>(9,000,000)</u>	
Grand Total	<u>\$51,338,098</u>	<u>\$48,832,521</u>	<u>\$12,138,975</u>	<u>\$112,309,594</u>	
*No net change to state special revenue					
**Does not include the reduction in Shared Leadership in the Montana University System above, which reduces the total to \$2.1 million.					
Figure 2					

As shown in Figure 2, the Governor would increase general fund expenditures by \$74.2 million in the 2007 biennium, offset by a proposal to pay the Crow Tribe settlement and a portion of the Interactive Revenue Information System (IRIS) loan payout in FY 2005, rather than in the 2007 biennium as proposed by Governor Martz.

The Governor would expend almost 70 percent of all proposed general fund increases for two areas: 1) public schools (K-12 education); and 2) human services. If various economic development initiatives are added, the figure rises to over 78 percent.

The figure below shows the major increases within the functional areas. As shown, 9 initiatives comprise over 92 percent of the proposed general fund increase. Please note that the figures do not include reductions proposed in both Montana University System Shared Leadership and in general fund for the Children's Health Insurance Program (CHIP) program due to a funding switch.

Figure 3 Major General Fund Initiatives General Appropriations Act (HB 2) 2007 Biennium			
Initiative	General Fund	Percent of Total	Cumulative Percent
Increased Payments to Schools*	\$35,445,779	47.7%	47.7%
LIEAP	8,400,000	11.3%	59.1%
Economic Development**	7,000,000	9.4%	68.5%
Student Assistance	5,000,000	6.7%	75.2%
Court Information Technology	3,870,000	5.2%	80.4%
Tribal College Assistance	2,803,500	3.8%	84.2%
Foster Care	2,000,000	2.7%	86.9%
Water Adjudication	2,000,000	2.7%	89.6%
Environmental Site Remedial Investigation and Feasibility	2,000,000	2.7%	92.3%
*Includes facilities payments			
**If the reduction in Shared Leadership was also included, the total would be \$2.1 million			

INCREASES BY FUNCTIONAL AREA

The following highlights major changes in each functional area of government.

K-12 Education

K-12 education would increase by \$40.8 million general fund due primarily to three initiatives:

- An increase in the Base Aid schedules of \$250 per average number belonging (ANB) in elementary schools and \$50 per ANB in high schools, along with a 3.5 percent increase in special education
- Increased expenditures for school facility payments to eliminate any prorating of payments
- The development of an educational information database

Human Services

Human services would increase by \$10.4 million general fund and \$78.9 million total funds for a number of initiatives:

- An increase in Low Income Energy Assistance Program (LIEAP) funding of \$8.4 million; coupled with the proposed supplemental in FY 2005, the Governor would increase this program by over \$10 million

- Replacement of tobacco settlement funds with general fund for a number of programs
- Increased foster care payments
- An increase in enrollment in CHIP to 13,900, funded with tobacco settlement and cigarette tax revenues, and federal funds

The Governor adds \$45 million in cigarette tax revenues anticipated due to the passage of I-149 for a number of programs, including:

- Prescription drugs
- Medicaid provider increases
- Increased Medicaid enrollment due to the proposed Medicaid HIFA waiver
- Tax credits for small employers that provide health insurance

Higher Education

The Governor has two initiatives: 1) increased student assistance (\$5 million); and 2) increased tribal college support (\$2.8 million). The Governor does not fund the Shared Leadership project of the Montana University System endorsed by Governor Martz (\$4.9 million), for a net increase of \$2.9 million.

Corrections

Corrections receives no new funding beyond the amount recommended by Governor Martz.

All Other

Economic development projects would add \$7.0 million, although this figure would drop to \$2.1 million if the elimination of Shared Leadership (\$4.9 million) is included. The Governor would also:

- Continue funding the Judiciary's court automation project
- Provide funds to expedite the water adjudication process
- Allow remedial investigation and feasibility studies on two environmental sites
- Fund additional revenue auditors to increase state revenues
- Reinstate the Agricultural Heritage Program



GENERAL FUND PROJECTION

2005 BIENNIUM PROJECTION

After completion of the Fifty-eighth Legislature, the unreserved ending general fund balance for the 2005 biennium was projected to be \$46.2 million (Figure 4). This balance was based on: 1) revenue estimates adopted in HJR 2; 2) LFD statutory appropriation and reversion estimates; 3) all general fund appropriations authorized by the legislature; and 4) the estimated impacts of all enacted revenue legislation. The Fifty-eighth Legislature did not budget for any supplemental or emergency appropriations.

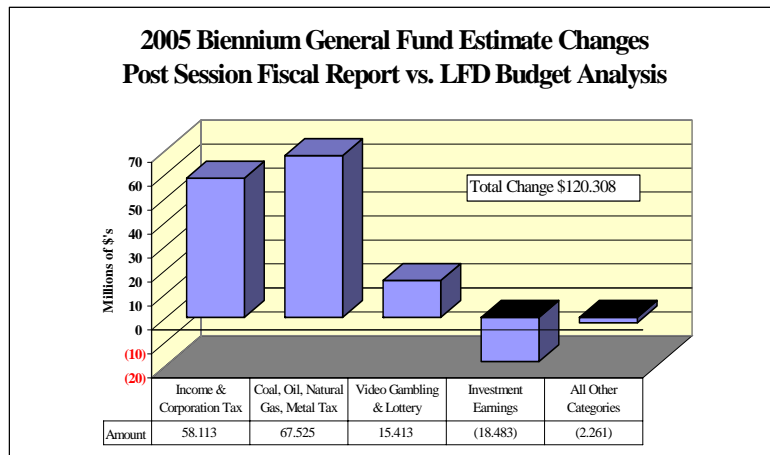
As Figure 4 shows, the revised unreserved general fund balance at the end of the 2005 biennium is now projected to be \$158.4 million. This revised projection is based on: 1) revenue estimates adopted by the Revenue and transportation Interim Committee (RTIC) on November 16, 2004; 2) LFD statutory appropriation and reversion estimates; and 3) supplemental appropriation recommendations by the executive, including the Schweitzer revisions. This projected balance equals 5.7 percent of anticipated revenues for the 2005 biennium and is \$112.2 million above the balance anticipated after adjournment of the 58th Legislature. This amount compares to a difference of \$148.5 million in the Martz budget, with the only change being \$36.3 million in additional supplemental appropriations.

The increase in the projected general fund balance is due to several factors that have transpired since the adjournment of the 58th Legislature. Total general fund revenues are expected to be \$120.3 million more than anticipated, while disbursements are expected to be \$29.3 million more than authorized by the legislature. Fund balance adjustments are expected to be a negative \$5.3 million. The improved revenue condition (\$120.3 million) can be attributed to the factors shown in Figure 5. As shown in the figure, the three income sources primarily responsible for Montana's revenue picture reversal are individual income, corporation income, and oil and natural gas taxes.

Figure 4

Comparison of 2005 Biennium General Fund Balance Post Session Budget vs. LFD Budget Analysis (In Millions)			
	Regular Session 2005 Biennium	Budget Analysis 2005 Biennium	Difference 2005 Biennium
Beginning Fund Balance	\$16.521	\$43.065	\$26.544
Revenues			
Current Law Revenue	2,645.895	2,766.204	120.309
Total Funds Available	\$2,662.416	\$2,809.269	\$146.853
Disbursements			
General Appropriations	2,319.761	2,329.457	9.696
Statutory Appropriations	259.768	255.260	(4.508)
Miscellaneous Appropriations	6.350	4.251	(2.099)
Non-Budgeted Transfers	31.165	27.521	(3.644)
Supplemental Appropriations		48.970	48.970
Language Appropriations	0.646	1.722	1.076
Feed Bill Appropriations	6.699	7.000	0.301
Anticipated Reversions	(8.191)	(28.662)	(20.471)
Total Disbursements	\$2,616.198	\$2,645.519	\$29.321
Adjustments		(5.344)	(5.344)
Projected Ending Fund Balance	\$46.218	\$158.406	\$112.188

Figure 5



Individual income tax has experienced increased growth resulting in large part from the federal Jobs and Growth Tax Relief Reconciliation Act of 2003 (federal tax policy changes), an improvement in wage growth (especially in real wage growth per worker), and a higher capital gains base in calendar 2003. The corporation income tax has rebounded as Montana and multi-state corporations have recovered from the 2001 recession and the effects of "9/11". Additionally, the impact of the federal stimulus bonus depreciation provisions of calendar

2002 and 2003 will now create a decrease in the amount of depreciation expense corporations can claim in future years. This will result in increased tax liabilities. Finally, both oil and natural gas prices have increased dramatically in response to the war in Iraq and uncertainty about future supplies. As a result of the higher prices, new drilling activity for oil is up substantially. Production levels are once again increasing, reversing the production declines observed during the last ten years.

The primary reasons for the change in disbursements (\$29.3 million) are as follows:

Decreased Disbursements

1. Unanticipated reversions, caused mainly by the offset of general fund appropriations in DPHHS with increased federal FMAP federal funds from the passage of the federal Jobs and Growth Tax Relief Reconciliation Act;
2. Decreased statutorily appropriated payments for debt service on bonds and TRANS, offset slightly by increased retirement payments (see page 148 of Legislative Budget Analysis 2007 Biennium – Volume 1 for more details);
3. Decreased non-budgeted transfers of vehicle fee revenue due to unanticipated consequences of new legislation. The decreases were offset slightly by an increased net US royalty revenue transfers (due to greater revenue) and unanticipated DPHHS program transfers (see page 151 of Legislative Budget Analysis 2007 Biennium – Volume 1 for more details); and
4. Decreased miscellaneous appropriations caused by biennial appropriations not being fully spent in FY 2004. The continuing balances of these appropriations are included in "general appropriations".

Increased Disbursements

1. Supplemental appropriations of \$49.0 million not anticipated by the 58th legislature – the Schweitzer revisions add \$36.3 million to supplementals (see page 27 for more details);
2. Increased general appropriations due to the unspent balances of miscellaneous appropriations continuing into FY 2005; and
3. Greater expenditures than anticipated from the language appropriation allowing the Judiciary to spend reversions from the 2003 biennium.

As Figure 4 shows, the combined impact of higher revenues, a net increase in disbursements, and negative fund balance adjustments is a net increase in the projected fund balance of \$112.2 million for the 2005 biennium.

2007 BIENNIUM PROJECTION

PRESENT LAW

Figure 6 compares the projected present law general fund balance for the 2007 biennium as proposed by Governors Schweitzer and Martz. Amounts shown include the revenue estimates as adopted by RTIC in November and the cost of operating state government based on present law requirements as proposed in both executive budgets. The present law amounts shown for both anticipated revenues and expenditures do not include any new proposals or initiatives recommended by the executive.

As Figure 6 shows, the 2007 biennium ending general fund balance is projected to be a positive \$274.2 million before any new proposals or initiatives recommended by Governor Schweitzer are considered, \$19 million less than the balance in the Martz budget. This balance indicates the state can still maintain the existing present level of services with existing revenues.

Figure 6

2007 Biennium General Fund Balance Present Law Only (In Millions)			
	Schweitzer 2007 Biennium	Martz 2007 Biennium	Difference
Beginning Fund Balance	\$158.406	\$194.725	(\$36.319)
Revenues			
Current Law Revenue	2,898.316	2,898.316	
Total Funds Available	\$3,056.722	\$3,093.041	(\$36.319)
Disbursements			
General Appropriations			
Human Services	597.721	598.378	(0.657)
Corrections	233.189	233.189	
Higher Education	290.501	290.501	
Public Schools	1,051.049	1,051.049	
Other Agencies	295.821	312.446	(16.625)
Statutory Appropriations	268.691	268.691	
Non-Budgeted Transfers	41.231	41.231	
Feed Bill Appropriations	10.150	10.150	
Anticipated Reversions	(5.836)	(5.855)	0.019
Total Disbursements	\$2,782.517	\$2,799.780	(\$17.263)
Ending Fund Balance Before Reserve	\$274.205	\$293.261	(\$19.056)
Proposed Executive Budget Reserve	(\$80.000)	(\$80.000)	
Projected Present Law Surplus	\$194.205	\$213.261	(\$19.056)

LFD ISSUE

The executive is requesting supplemental appropriations of \$49.0 million for FY 2005, yet their fund balance statement for the 2007 biennium does not include any specific reserve for anticipated supplemental or emergency appropriations. Supplemental and emergency appropriations have never been less than \$11.5 million for the last 10 biennia. In addition, state statute authorizes \$16.5 million statutory appropriation for emergencies that are not included in the projections.

Figure 7 shows the allocation of general fund dollars to functional areas with the revised Schweitzer budget. As the chart indicates, educational services consume about 48 percent of total general fund expenditures, with human services and correctional services expending nearly 30 percent. All other governmental agencies expend almost 11 percent, with the remaining 11 percent expended by statutory appropriations for debt service, retirement systems, local government reimbursements, and transfers. For more information on statutory appropriations and non-budgeted transfers, (see page 148 and 151 of Volume 1).

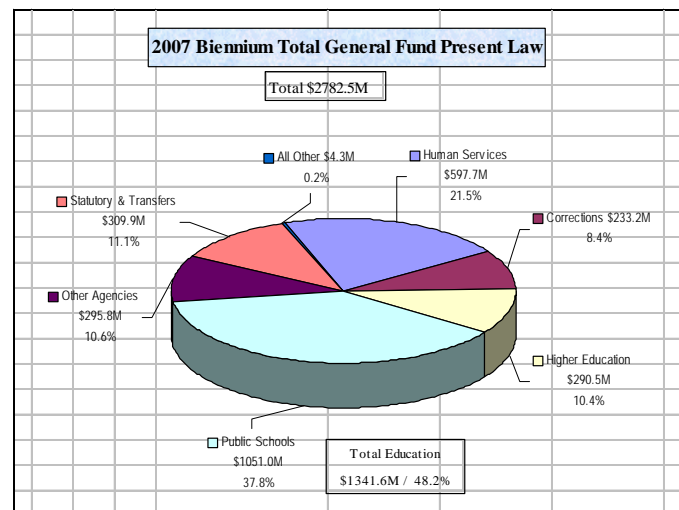


Figure 7

NEW PROPOSALS

Figure 8 shows the projected general fund balance with Governor Schweitzer and Martz new proposals and initiatives included, using legislative revenue estimates in HJR 2. The new proposals are categorized as either a revenue or disbursement proposal. Since the present law budget is positive, the total budget initiatives for all of the Governor Schweitzer new proposals is a negative (cost) of \$190.0 million. This amount, combined with the available present law balance, results in an ending balance of \$84.2 million. When the recommended ending fund balance reserve of \$80.0 million is included, a difference of \$4.2 million results. In other words, if the entire Schweitzer budget (present law plus all initiatives) is funded, there is still \$4.2 million available for legislative consideration while maintaining the \$80 million reserve. As advocated by the LFD in the past, an adequate reserve is necessary for unexpected occurrences including emergencies, fire suppression costs, supplemental appropriations, or lower than expected revenue collections.

2007 Biennium General Fund Balance With Executive Budget New Proposals (In Millions)			
	Schweitzer 2007 Biennium	Martz 2007 Biennium	Change 2007 Biennium
Beginning Present Law Balance	\$274.205	\$293.261	(\$19.056)
Executive Revenue Proposals			
Department of Revenue Loan Payback	5.957	5.957	
Department of Justice Pathologist	0.317	0.317	
Economic Development Trust Fund	(6.551)		(6.551)
Department of Revenue Compliance Staff	3.400		3.400
Judiciary Surcharge Fees	3.200		3.200
Tribal Court Commitments	(0.600)		(0.600)
Total Revenue Proposals	\$5.723	\$6.274	(\$0.551)
Executive Disbursement Proposals			
General Appropriations			
Human Services	16.190	5.171	11.019
Corrections	1.596	1.596	
Higher Education	12.846	9.903	2.943
Public Schools	46.920	6.141	40.779
Other Agencies	31.105	17.225	13.880
Language Appropriations	1.592	1.592	
Long Range Building	30.000	30.000	
Cultural Trust Repayment	3.913	3.913	
Protested Property Tax Reserve	4.000	4.000	
Retirement System Funding	7.200	7.200	
Defined Contribution Plan Loan	1.400		1.400
Additional Statutory Authority	1.348		1.348
Executive Pay Proposal	<u>37.611</u>	<u>31.544</u>	<u>6.067</u>
Total Disbursement Proposals	\$195.721	\$118.285	\$77.436
Total Executive New Proposals	(\$189.998)	(\$112.011)	(\$77.987)
Ending Balance Before Reserve	\$84.207	\$181.250	(\$97.043)
Executive Proposed Ending Fund Reserve	80.000	80.000	
Difference From Proposed Reserve	\$4.207	\$101.250	(\$97.043)

Figure 8

LFD COMMENT

The Schweitzer budget includes phased-in proposals that will cost more in the 2009 biennium budget such as the state employee pay plan. This means the 2007 legislature will be faced with funding additional services above the 2007 biennium costs.

DIFFERENCES FROM EXECUTIVE PROPOSAL

The Schweitzer budget as submitted projects an ending fund balance of \$79.9 million after funding all executive present law adjustments and new proposals. This contrasts with Figure 8, which shows a general fund balance of \$84.2 million, or a difference of \$4.3 million. The \$84.2 million balance is based on the RTIC revenue estimates, LFD estimates for statutory appropriations and reversions, and Governor Schweitzer's recommendations for all present law adjustments and new proposals. As shown in Figure 9, there are a number of items that contribute to the total difference of \$4.2 million, with the primary difference being that legislative revenue estimates are \$4.1 million above the executive estimates.

Figure 9

Differences From Executive Budget Fiscal 2005, 2006, 2007 (In Millions)	
Fund Balance Category	3 Year Difference
+ Beginning Fund Balance	\$0.003
+ Revenues	4.105
- Disbursements	
General Appropriations	3.151
Statutory Appropriations	0.399
Non-Budgeted Transfers	(2.110)
Supplemental Appropriations	
Anticipated Reversions	0.185
+ Fund Balance Adjustments	1.815
Total Change to Fund Balance	\$4.298

ALLOWANCE FOR RESERVES

In summary, if the RTIC revenue estimate recommendations and the executive present law recommendations were adopted by the legislature, the general fund present law balance would be a positive \$274.2 million, and would be reduced to \$84.2 million if the executive new proposals were also adopted. However, since the state incurs significant wildfire costs each year, some allowance for these costs should be included in any biennium ending fund balance projection. Although the cost of fighting wildfires can fluctuate significantly from biennium to biennium, a 7 year average, removing the high and low years (FY 2004 and FY 2005, respectively), is just over \$7.0 million per year. This amount is included as a reserve in Figure 10 (\$14.1 million for the biennium) to represent anticipated fire costs in the 2007 biennium.

In addition, state statute authorizes a general fund statutory appropriation of \$16.5 million per biennium for the Governor to deal with declared disasters or emergencies such as floods, fires, and other natural disasters. From FY 2000 through FY 2003, the average expenditure (excluding fire costs already included in the fire cost average discussed above) from the emergency appropriation is nearly \$400,000 per year (\$800,00 per biennium). This amount is included as a reserve in Figure 10 to represent anticipated emergency costs in the 2007 biennium.

If the two reserves discussed above were included in the fund balance statement, the present law balance would decline to a positive \$259.3 million. A balance in the general fund of \$69.3 million would then occur if the legislature adopted the executive's recommendations for all new proposals and initiatives, \$10.7 million below the executive recommended ending reserve.

Figure 10 shows the detailed general fund balance sheet based on present law revenues and disbursements plus an allowance for wildfire and emergency reserves, followed by a sub-table that shows the balance when the executive's new proposals are included. The \$80.0 million reserve as proposed by the executive is not shown in this figure.

2007 Biennium General Fund Balance Based on Present Law (In Millions)						
	Actual Fiscal 2004	Estimated Fiscal 2005	Estimated Fiscal 2006	Estimated Fiscal 2007	Estimated 2005 Biennium	Estimated 2007 Biennium
Beginning Fund Balance	\$43.065	\$132.873	\$158.406	\$198.631	\$43.065	\$158.406
Revenues						
Current Law Revenue	1,381.565	1,384.639	1,429.143	1,469.173	2,766.204	2,898.316
Total Funds Available	\$1,424.630	\$1,517.512	\$1,587.549	\$1,667.804	\$2,809.269	\$3,056.722
Disbursements						
General Appropriations	1,161.831	1,167.626	1,227.757	1,240.524	2,329.457	2,468.281
Statutory Appropriations	126.600	128.660	133.085	135.606	255.260	268.691
Local Assistance Appropriations						
Miscellaneous Appropriations	1.866	2.385			4.251	
Non-Budgeted Transfers	10.052	17.469	20.917	20.314	27.521	41.231
Supplemental Appropriations		48.970			48.970	
Language Appropriations	1.372	0.350			1.722	
Feed Bill Appropriations		7.000	2.100	8.050	7.000	10.150
Anticipated Reversions	(19.683)	(8.979)	(2.386)	(3.450)	(28.662)	(5.836)
Total Disbursements	\$1,282.038	\$1,363.481	\$1,381.473	\$1,401.044	\$2,645.519	\$2,782.517
Adjustments	(9.719)	4.375			(5.344)	
Reserved Ending Fund Balance	\$132.873	\$158.406	\$206.076	\$266.760	\$158.406	\$274.205
Wildfire Suppression Cost Reserve			7.045	7.045		14.090
Emergency Appropriation Reserve			0.400	0.400		0.800
Unreserved Ending Fund Balance	\$132.873	\$158.406	\$198.631	\$259.315	\$158.406	\$259.315
Net Operations	\$99.527	\$21.158	\$40.225	\$60.684	\$120.685	\$100.909
New Executive Proposals Not Included Above						
Revenue Initiatives			\$2.825	\$2.898		\$5.723
Disbursement New Proposals						
Long Range Building			10.000	20.000		30.000
Cultural Trust Repayment			3.913			3.913
Protested Property Tax Reserve			4.000			4.000
Retirement System Funding			3.600	3.600		7.200
Defined Contribution Plan Loan			0.700	0.700		1.400
Additional Statutory Authority			0.412	0.936		1.348
Executive Pay Proposal			11.030	26.581		37.611
Language Appropriations			0.887	0.705		1.592
HB2 New Proposals			61.451	47.206		108.657
Total Disbursement Initiatives			\$95.993	\$99.728		\$195.721
Potential Ending Fund Balance With Reserves			\$105.463	\$69.317	\$158.406	\$69.317

Figure 10



GOV. SCHWEITZER 2007 BIENNIUM BUDGET HIGHLIGHTS

INTRODUCTION

This chapter is a summarization of the budget submitted for the 2007 biennium by Governor Schweitzer, pursuant to statute. It provides an overview of the more detailed agency budget presentations contained in the Volume 5 Addendum and in Volumes 3 and 4. It is intended to provide the reader with a general understanding of the major components and priorities of the Schweitzer budget.

The following categorizations of the Schweitzer executive budget are included in this section, including comparisons to the Martz budget and the prior biennium where appropriate.

- Biennial Budget Comparison
- By Program Area – General Fund
- By Program Area – All Funds
- By Fund Source
- New Initiatives
- One-time only expenditure proposals
- Fund switches

BIENNIAL BUDGET COMPARISON

This section summarizes Governor Schweitzer's recommendations for the 2007 biennium and compares it to expenditures and appropriations for the 2005 biennium as required by 17-7-151, MCA.

Figures 11 and 12 compare expenditures/appropriations between the 2005 and 2007 biennia for general fund and total funds. The executive is recommending a 2007 biennium budget that includes an additional \$330 million general fund, an 12.8 percent increase over the 2005 biennium, using comparable adjustments. This compares to a \$273 million, 10.6 percent increase in the Martz budget. Total requested increases (all funds) in the Schweitzer budget amount to \$813 million, an 11.8 percent increase. This compares to a \$692 million, 10.1 percent increase in the Martz budget. The Schweitzer proposals increase general fund expenditures by 2.2 percent and total expenditures by 1.7 percent over the Martz budget. The executive proposal for general fund and total spending increases is supported by existing sources of revenue, with the large general fund and federal increases being indicative of substantial general fund and federal revenue increases estimated for the 2007 biennium. Transfers, including the one-time transfers of general fund proposed by the executive, are not included as dictated by the statutory methodology.

Non-comparable adjustments (at the bottom of the tables) tend to distort comparisons by the lack of comparable information for the 2007 biennium. These adjustments are shown for informational purposes only and to complete the listing of 2005 biennium expenditures.

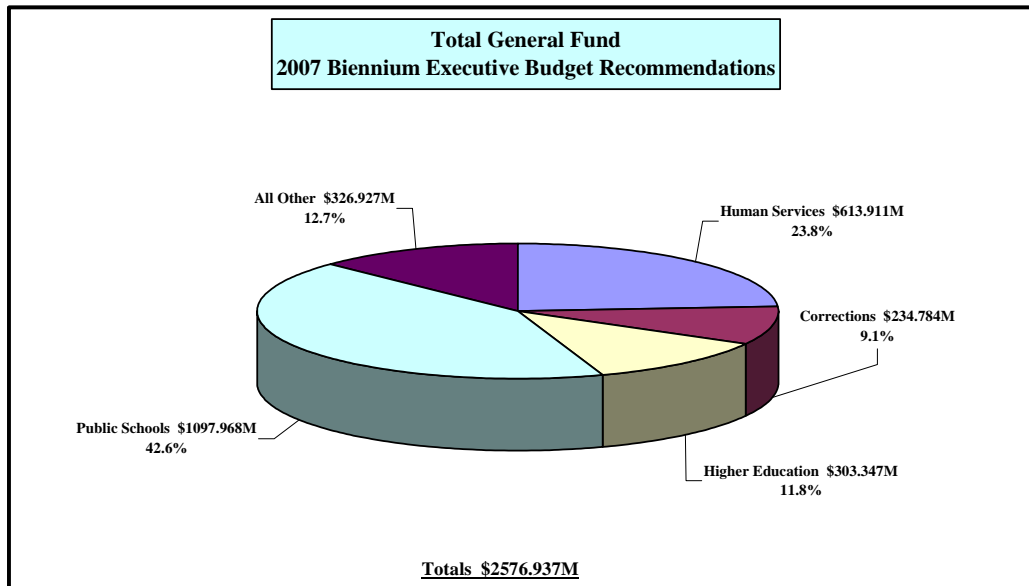
Schweitzer Budget General Fund Comparison 2005 Biennium Versus Executive Budget 2007 Biennium					
Agcy Code	Agency Name	Total Adjusted Fiscal 04-05	Total Exec. Budget Fiscal 06-07	Difference 2007 Biennium - 2005 Biennium	% Change 2007 Biennium 2005 Biennium
1104	Legislative Branch	\$16,106,258	\$16,756,076	\$649,818	4.03%
2110	Judicial Branch	58,541,313	74,576,143	16,034,830	27.39%
3101	Governor's Office	8,818,012	12,701,495	3,883,483	44.04%
3202	Commissioner Of Political Practices	632,890	647,698	14,808	2.34%
3401	State Auditor's Office	0	0	0	NA
3501	Office Of Public Instruction	1,028,977,504	1,097,967,922	68,990,418	6.70%
4107	Crime Control Division	3,274,487	3,437,597	163,110	4.98%
4110	Department Of Justice	37,468,284	40,978,771	3,510,487	9.37%
5101	Board Of Public Education	305,290	332,640	27,350	8.96%
5102	Commissioner Of Higher Education	277,986,004	303,346,748	25,360,744	9.12%
5113	School For The Deaf & Blind	6,916,681	8,436,967	1,520,286	21.98%
5114	Montana Arts Council	576,604	647,261	70,657	12.25%
5115	Montana State Library	3,214,435	3,407,572	193,137	6.01%
5117	Montana Historical Society	3,481,698	3,812,033	330,335	9.49%
5301	Department Of Environmental Quality	6,217,300	10,226,437	4,009,137	64.48%
5603	Department Of Livestock	1,054,263	1,137,710	83,447	7.92%
5706	Dept Of Natural Resources & Conservation	34,320,252	36,716,695	2,396,443	6.98%
5801	Department Of Revenue	56,348,979	77,449,399	21,100,420	37.45%
6101	Department Of Administration	6,914,319	11,907,993	4,993,674	72.22%
6102	Appellate Defender	373,462	397,616	24,154	6.47%
6201	Department Of Agriculture	1,226,366	1,189,056	(37,310)	-3.04%
6401	Department Of Corrections	210,647,987	234,784,069	24,136,082	11.46%
6501	Department Of Commerce	3,149,336	9,250,436	6,101,100	193.73%
6602	Department Of Labor & Industry	2,353,932	3,674,419	1,320,487	56.10%
6701	Department Of Military Affairs	8,306,330	9,242,940	936,610	11.28%
6901	Dept Of Public Health & Human Services	520,511,199	613,910,646	93,399,447	17.94%
Total		\$2,297,723,185	\$2,576,936,339	\$279,213,154	12.15%
Comparable Adjustments					
	Employee Pay Proposal	In Above	37,610,585	37,610,585	
	Statutory Appropriations	255,227,183	268,691,065	13,463,882	5.28%
	Legislative Session Costs *	7,758,613	10,150,000	2,391,387	30.82%
	Miscellaneous Appropriations	31,716,939	11,539,370	(20,177,569)	-63.62%
	One-Time Only Costs	5,209,720		(5,209,720)	-100.00%
	Anticipated Reversions	(28,662,000)	(5,855,000)	22,807,000	-79.57%
	Total With Comparable Adjustments	\$2,568,973,640	\$2,899,072,359	\$330,098,719	12.85%
Non Comparable Adjustments					
	Budget Amendments	0		0	
	Supplementals	48,990,382		(48,990,382)	-100.00%
	Disaster/Emergency Costs (SA)	33,760	0	(33,760)	-100.00%
	Total With All Adjustments	\$2,617,997,782	\$2,899,072,359	\$281,074,577	10.74%
* Reversions of \$3,154,812 and \$3,150,000 are expected in the 2005 and 2007 biennia, respectively.					
Figure 11					

Schweitzer Budget All Funds Comparison 2005 Biennium Versus Executive Budget 2007 Biennium					
Agcy Code	Agency Name	Total Adjusted Fiscal 04-05	Total Exec. Budget Fiscal 06-07	Difference 2007 Biennium - 2005 Biennium	% Change 2007 Biennium 2005 Biennium
1104	Legislative Branch	\$20,164,335	\$20,969,368	\$805,033	3.99%
1112	Consumer Council	2,645,816	2,768,221	122,405	4.63%
2110	Judicial Branch	64,828,673	78,794,145	13,965,472	21.54%
3101	Governor's Office	21,383,896	13,305,655	(8,078,241)	-37.78%
3201	Secretary Of State's Office	0	11,026,465	11,026,465	NA
3202	Commissioner Of Political Practices	632,890	647,698	14,808	2.34%
3401	State Auditor's Office	9,429,943	10,212,169	782,226	8.30%
3501	Office Of Public Instruction	1,309,165,538	1,397,198,453	88,032,915	6.72%
4107	Crime Control Division	27,583,033	30,817,274	3,234,241	11.73%
4110	Department Of Justice	107,514,911	111,613,714	4,098,803	3.81%
4201	Public Service Regulation	5,943,474	5,715,138	(228,336)	-3.84%
5101	Board Of Public Education	649,375	717,625	68,250	10.51%
5102	Commissioner Of Higher Education	391,504,387	423,702,018	32,197,631	8.22%
5113	School For The Deaf & Blind	7,793,250	9,208,201	1,414,951	18.16%
5114	Montana Arts Council	2,093,201	2,186,409	93,208	4.45%
5115	Montana State Library	7,267,048	7,466,455	199,407	2.74%
5117	Montana Historical Society	7,731,532	8,414,189	682,657	8.83%
5201	Department Of Fish, Wildlife & Parks	107,793,794	116,409,329	8,615,535	7.99%
5301	Department Of Environmental Quality	114,755,361	141,836,831	27,081,470	23.60%
5401	Department Of Transportation	1,133,065,121	1,215,955,351	82,890,230	7.32%
5603	Department Of Livestock	16,748,481	16,271,604	(476,877)	-2.85%
5706	Dept Of Natural Resources & Conservation	72,081,283	80,440,136	8,358,853	11.60%
5801	Department Of Revenue	65,985,149	83,533,176	17,548,027	26.59%
6101	Department Of Administration	34,575,942	43,113,949	8,538,007	24.69%
6102	Appellate Defender	373,462	397,616	24,154	6.47%
6106	Mt Consensus Council	513,141	396,548	(116,593)	-22.72%
6201	Department Of Agriculture	22,354,505	27,341,542	4,987,037	22.31%
6401	Department Of Corrections	217,073,483	241,515,111	24,441,628	11.26%
6501	Department Of Commerce	38,107,439	53,924,910	15,817,471	41.51%
6602	Department Of Labor & Industry	127,113,412	132,484,291	5,370,879	4.23%
6701	Department Of Military Affairs	33,642,734	35,976,579	2,333,845	6.94%
6901	Dept Of Public Health & Human Services	<u>2,234,800,021</u>	<u>2,647,896,024</u>	<u>413,096,003</u>	<u>18.48%</u>
Total		\$6,205,314,630	\$6,972,256,194	\$766,941,564	12.36%
Comparable Adjustments					
	Employee Pay Proposal	In Above	71,382,432	71,382,432	
	Statutory Appropriations	634,370,097	608,953,561	(25,416,536)	-4.01%
	Legislative Session Costs	7,758,613	10,150,000	2,391,387	30.82%
	Miscellaneous Appropriations *	31,716,939	11,539,370	(20,177,569)	-63.62%
	One-Time Only Costs (general fund)	5,209,720	0	(5,209,720)	-100.00%
	Anticipated Reversions (general fund)	(28,662,000)	(5,855,000)	22,807,000	-79.57%
	Total With Comparable Adjustments	\$6,855,707,999	\$7,668,426,557	\$812,718,558	11.85%
Non Comparable Adjustments					
	Budget Amendments	193,584,323		(193,584,323)	-100.00%
	Supplementals	48,990,382		(48,990,382)	-100.00%
	Disaster/Emergency Costs (SA)	33,760	0	(33,760)	-100.00%
	Total With All Adjustments	\$7,098,316,464	\$7,668,426,557	\$570,110,093	8.03%
* Only the general fund portion is shown. All funds cannot be determined based on existing accounting records.					
Figure 12					

SCHWEITZER BUDGET BY PROGRAM AREA - GENERAL FUND

The Figure 13 shows the general fund allocation in Governor Schweitzer's budget by program area in the 2007 biennium for HB 2 only.

Figure 13



The figure shows that education (public schools (K-12 education) and higher education) would receive 54.4 percent of all general fund. Education, human services, and corrections combined would receive 87.3 percent of the total. Compared to the budget recommended by Governor Martz, education and human services would receive a higher percentage share of the budget, while the percentage share going to corrections and all other government would fall. This change is due to several factors shown in Figure 14 on the next page. Governor Schweitzer:

- Adds \$40.8 million to public schools, primarily through increased Base Aid and special education payments
- Increases funding for low income energy assistance and foster care, and replaces tobacco settlement proceeds with general fund in a number of programs, with the result that general fund for human services increases \$10.3 million
- Adds no new general fund to the Department of Corrections
- Proposes to spend \$22.9 million in the Departments of Revenue and Natural Resources and Conservation ("all other" category) in FY 2005 rather than in the 2007 biennium as originally proposed for settlement and debt service payoffs. This is partially offset by increases in other agencies for economic development, court automation, and other initiatives
- Adds \$5 million for student assistance and \$2.8 million for tribal college assistance in higher education, offset by a \$4.9 million reduction in Shared Leadership (economic development initiative) funding

Figure 14

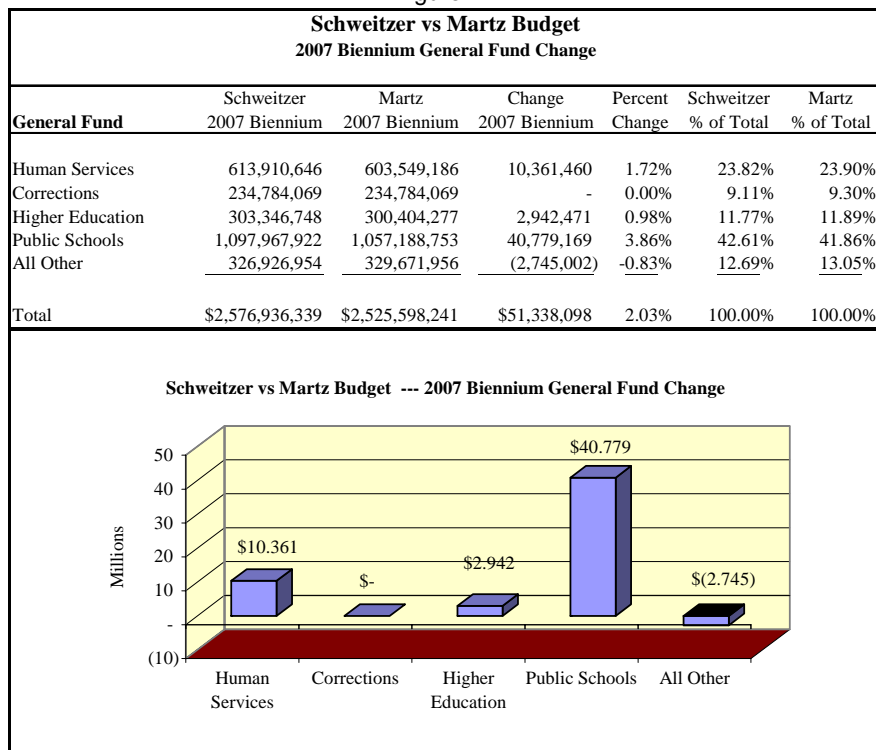
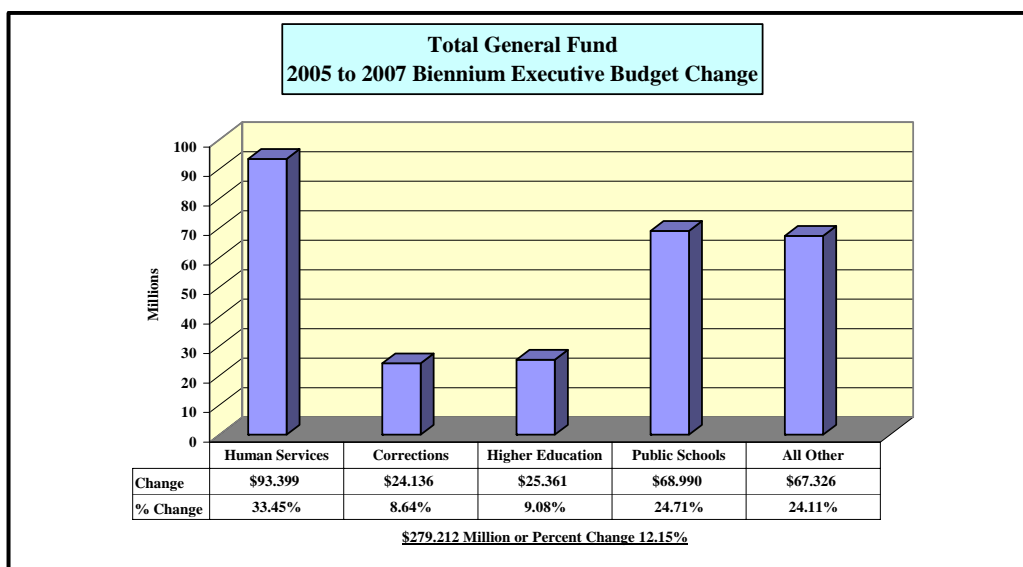


Figure 15 shows the increase proposed in the total Schweitzer budget compared to the 2005 biennium. As shown, the general fund budget would increase by \$279.2 million, or 12.2 percent. This increase compares to an increase of \$228 million (10 percent) in the original Martz budget.

Figure 15

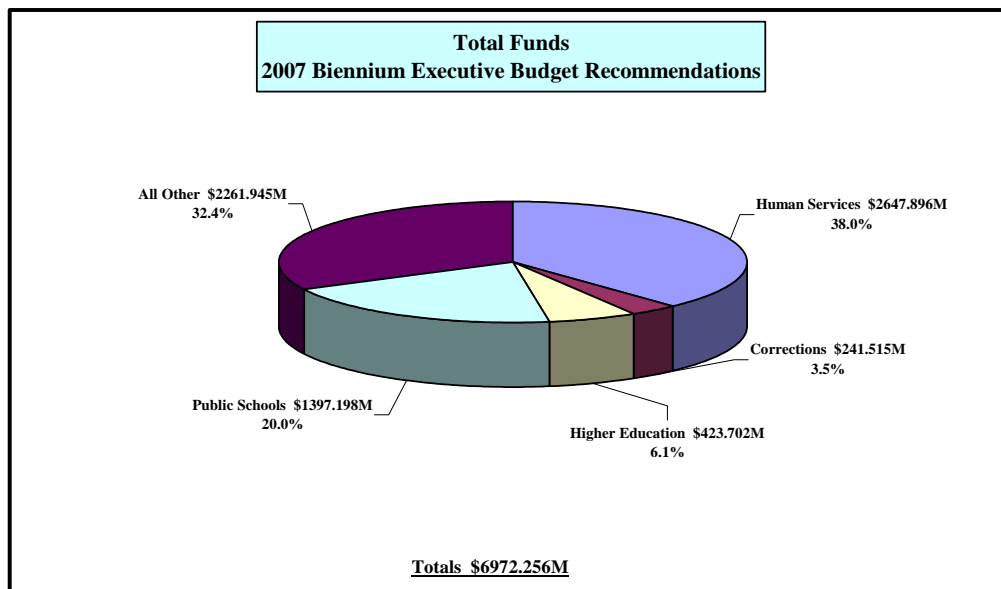


For a detailed discussion of the increases proposed by Governor Martz that make up the bulk of the increases shown in figure 15, see Volume 1 of the Legislative Budget Analysis 2007 Biennium.

SCHWEITZER BUDGET BY PROGRAM AREA - ALL FUNDS

The following figure shows the allocation by program area for total funds, for HB 2 only. Because K-12 education, the HB 2 portion of higher education, and corrections are primarily funded by general fund, the picture changes significantly when looking at total funds versus general fund. Human services, transportation, and environmental functions all have a large state special revenue or federal funds presence. Human services and public schools become slightly larger shares of the total with the Schweitzer revisions, while “all other” becomes smaller.

Figure 16



Comparison to Governor Martz

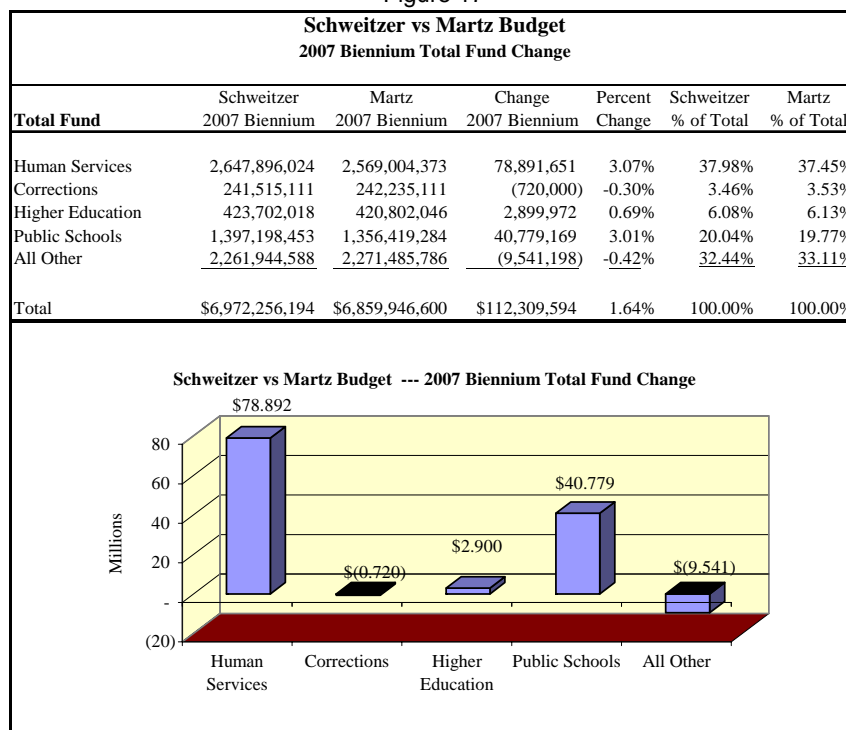
Figure 17 illustrates the additions in total funds made to the Martz budget. As shown, human services and public schools dominate the increases.

Human services would increase nearly \$80 million for the general fund reasons outlined previously, plus the addition of other funds primarily for three purposes:

- Increased tobacco prevention activities funded with tobacco settlement proceeds
- Increased enrollment in the Children’s Health Insurance Program (CHIP), funded with tobacco settlement proceeds, cigarette tax (I-149), and federal funds
- The addition of \$45 million in anticipated I-149 proceeds for a variety of programs

Public schools increase over \$40 million entirely due to general fund increases for increased Base aid (\$250 per ANB elementary schools and \$50 per ANB high schools), 3.5 percent increase for special education, and increases for school facility payments and development of an educational information database.

Figure 17



Comparison to 2005 Biennium

Figure 18 compares the total funds budget proposed by Governor Schweitzer compared to the 2005 biennium, by program area.

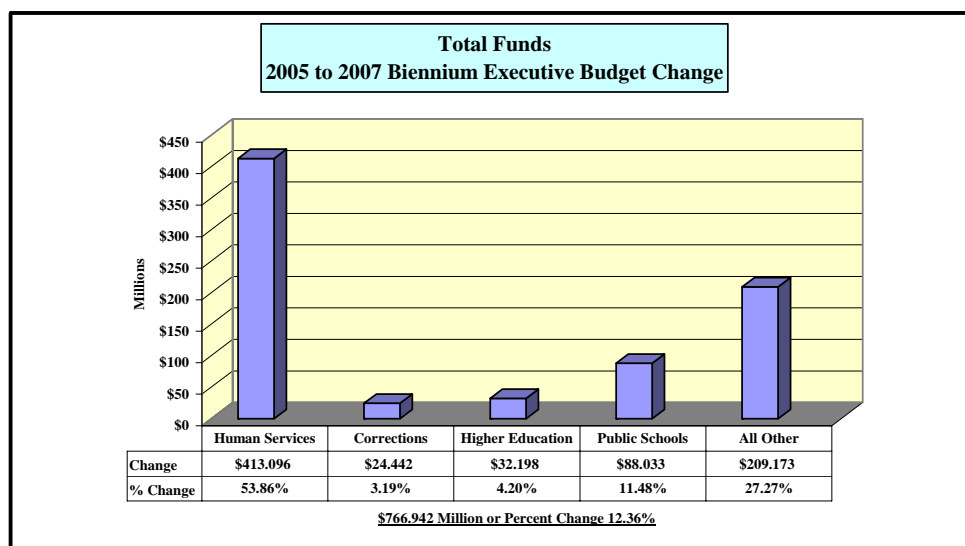


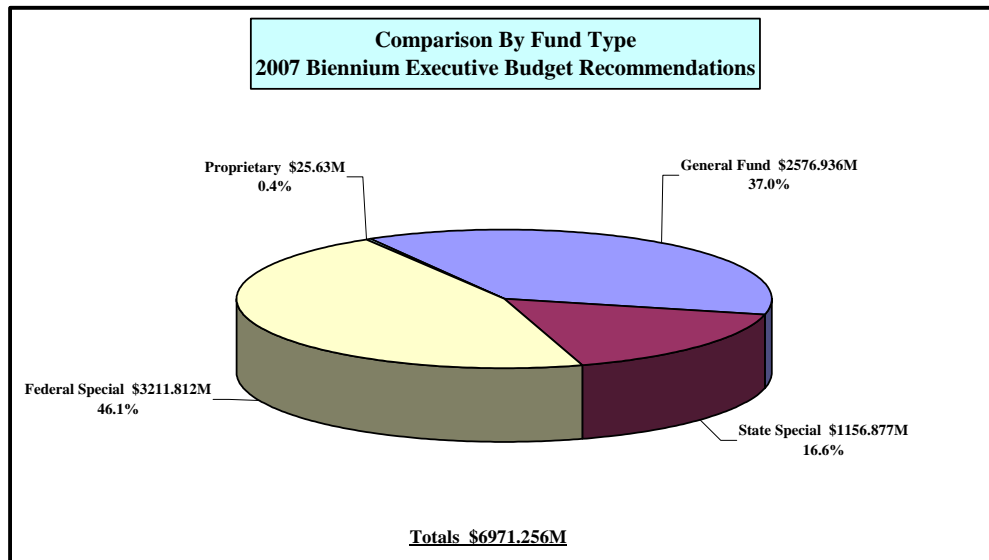
Figure 18

For a detailed discussion of the increases to the 2005 biennium proposed by Governor Martz that make up the bulk of the increases shown in figure 18, see Volume 1 of the Legislative Budget Analysis 2007 Biennium.

SCHWEITZER BUDGET BY FUND SOURCE

Figure 19 shows the allocation of the budget proposed by Governor Schweitzer by fund type, for HB 2 only. The pie chart graphically displays the heavy reliance of this state on the use of federal funds for state services, as federal funds are the largest source of funds at over 46 percent.

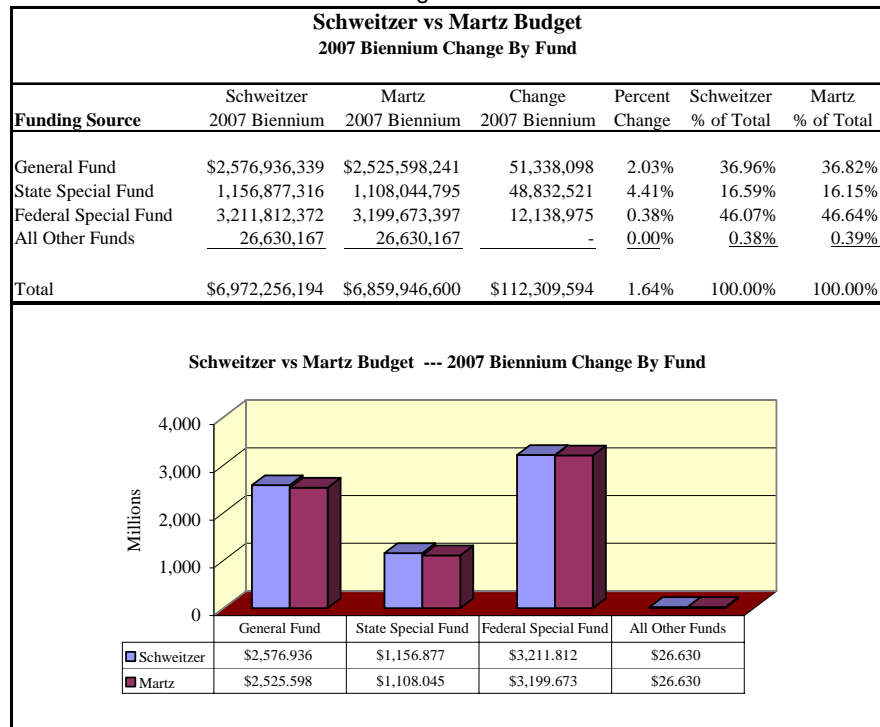
Figure 19



Comparison to Governor Martz

As shown in Figure 20 on the next page, compared to the budget proposed by Governor Martz, general fund and state special revenue would increase as a percentage of the budget, while federal funds decrease as a percentage share. Governor Schweitzer would add an additional \$51.3 million of general fund in the 2007 biennium (\$74.2 million in additional spending, plus a transfer of \$22.9 million in expenditures to FY 2005), and \$48.8 million in state special revenue, primarily for increased tobacco prevention activities, CHIP enrollment, and various programs funded with I-149 proceeds. Federal funds increase \$12.1 million, primarily in human services programs.

Figure 20



Comparison to 2005 Biennium

Figure 21 compares the total Schweitzer budget to the 2005 biennium for all funds.

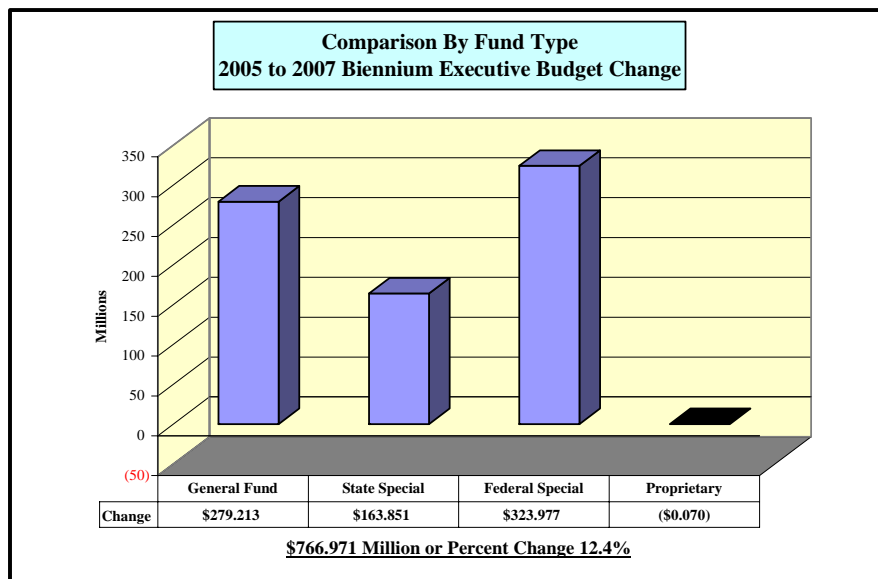


Figure 21

For a detailed discussion of the increases to the 2005 biennium proposed by Governor Martz that make up the bulk of the increases shown in figure 21, see Volume 1 of the Legislative Budget Analysis 2007 Biennium.

SCHWEITZER NEW INITIATIVES

Figure 22 compares the Governors Schweitzer and Martz new proposals. As shown, the Schweitzer new proposals (net of revenue and expenditure proposals) are \$190 million, and are \$78 million above the level recommended by Governor Martz. The primary emphasis in new initiatives is in public schools (\$46.9 million), the state employee pay plan proposal (\$37.6 million), deferred maintenance (\$30.0 million), and other agencies (\$31.1 million), including economic development, emergency telecommunications, enhancement and completion of several computer systems including court information automation, Governor's Office enhancements, water adjudication acceleration, and environmental programs.

2007 Biennium General Fund Balance With Executive Budget New Proposals (In Millions)			
	Schweitzer 2007 Biennium	Martz 2007 Biennium	Change 2007 Biennium
Beginning Present Law Balance	\$274.205	\$293.261	(\$19.056)
Executive Revenue Proposals			
Department of Revenue Loan Payback	5.957	5.957	
Department of Justice Pathologist	0.317	0.317	
Economic Development Trust Fund	(6.551)		(6.551)
Department of Revenue Compliance Staff	3.400		3.400
Judiciary Surcharge Fees	3.200		3.200
Tribal Court Commitments	<u>(0.600)</u>		<u>(0.600)</u>
Total Revenue Proposals	\$5.723	\$6.274	(\$0.551)
Executive Disbursement Proposals			
General Appropriations			
Human Services	16.190	5.171	11.019
Corrections	1.596	1.596	
Higher Education	12.846	9.903	2.943
Public Schools	46.920	6.141	40.779
Other Agencies	31.105	17.225	13.880
Language Appropriations	1.592	1.592	
Long Range Building	30.000	30.000	
Cultural Trust Repayment	3.913	3.913	
Protested Property Tax Reserve	4.000	4.000	
Retirement System Funding	7.200	7.200	
Defined Contribution Plan Loan	1.400		1.400
Additional Statutory Authority	1.348		1.348
Executive Pay Proposal	<u>37.611</u>	<u>31.544</u>	<u>6.067</u>
Total Disbursement Proposals	\$195.721	\$118.285	\$77.436
Total Executive New Proposals	(\$189.998)	(\$112.011)	(\$77.987)
Ending Balance Before Reserve	\$84.207	\$181.250	(\$97.043)
Executive Proposed Ending Fund Reserve	80.000	80.000	
Difference From Proposed Reserve	\$4.207	\$101.250	(\$97.043)

Figure 22

Figure 22 also shows the new initiatives as related to available fund balance. As shown, the Schweitzer new initiatives could be funded and still leave over an \$80 million reserve.

Figure 23 compares the Schweitzer and Martz allocations of all new proposal expenditure changes to functional areas. As the figure depicts, the Schweitzer budget allocates the largest dollar increases to public schools, employee pay, other government agencies (over half is for economic development), and deferred maintenance. Human services, corrections, higher education, and "all other" are recommended for the least increases when compared to the other four areas. As Figure

23 shows, the Schweitzer budget allocates significantly more dollars to public schools than the Martz budget. The Schweitzer budget also increases funding for human services, higher education, other governmental agencies, and employee pay above those recommended by Governor Martz.

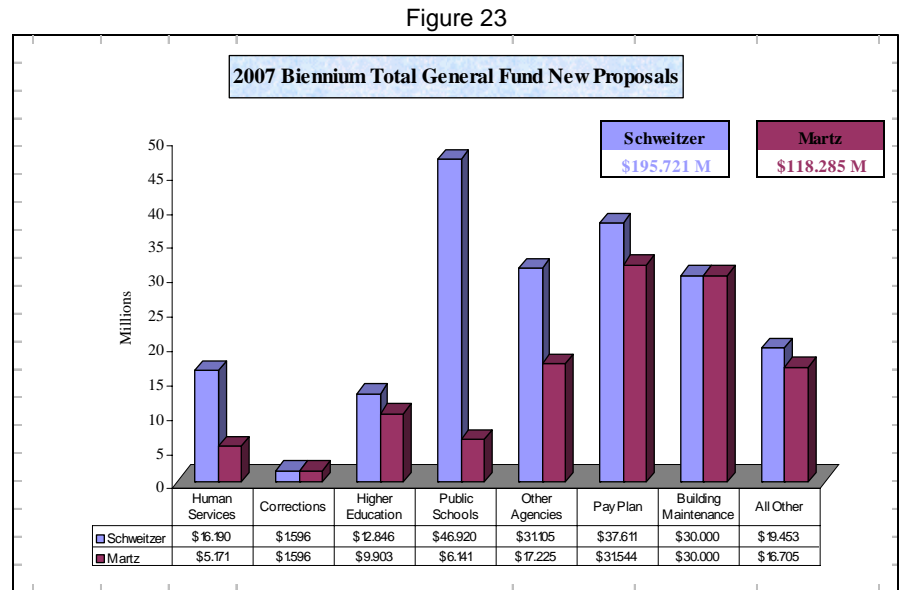
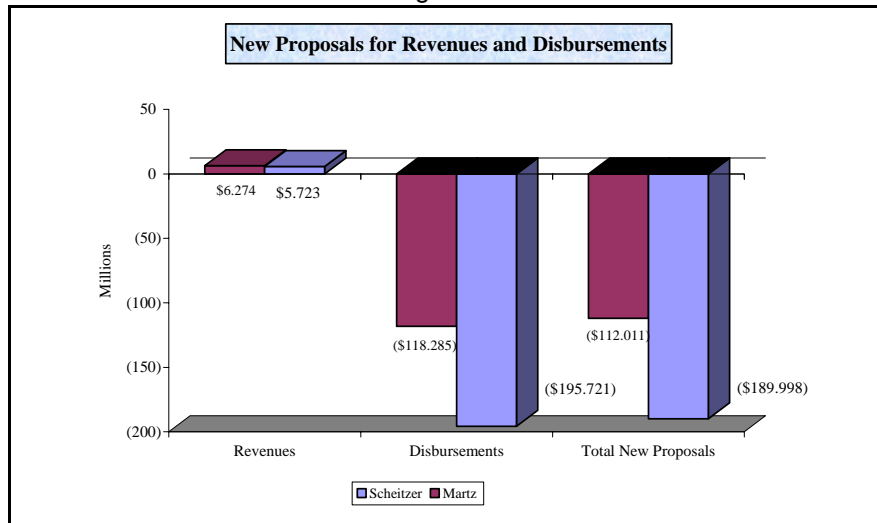


Figure 24



The new proposal recommendations of both Governors include both revenue and disbursement types. Figure 24 graphically portrays the dollar impact of these proposals. As shown in the figure, revenue initiatives of Governor Schweitzer are \$5.7 million and disbursement proposals are \$195.7 million for a combined impact of \$190.0 million. This is compared to a combined impact of \$112.0 million for the Martz budget, a difference of \$78.0 million.

SCHWEITZER ONE-TIME-ONLY EXPENDITURE PROPOSALS

The Schweitzer budget proposes to use one-time general fund revenues for one-time expenditures. One-time revenue for this purpose for the 2005 biennium is simply the difference between the projected ending fund balance for the 2005 biennium (\$158.4 million) and the projected ending fund balance (\$46.2 million) adopted by the 58th Legislature. This difference is \$112.2 million.

Figure 25 shows the recommended one-time expenditures by three categories, “HB2 Present Law Adjustments”, “HB2 New Proposals” and “Other New Initiatives”. The primary application of one-time proposals is for deferred maintenance in the long range building program, paying of litigation settlements and loan obligations, computer systems enhancement and completion, the Low Income Energy Assistance Program, equipment purchases, and emergency telecommunications infrastructure.

As Figure 25 shows, the Schweitzer budget proposes using \$96.4 million of this one-time revenue for one-time expenditure initiatives during the 2007 biennium. Increasing the ending fund balance from \$46.2 million to \$80 million requires another \$33.8 million. If the 59th Legislature accepts all of these recommendations, the legislature will utilize all one-time revenue available for consideration.

Schweitzer Budget One-Time Only Initiatives - 2007 Biennium			
Category	Proposed FY 2006	Proposed FY 2007	Proposed 2007 Biennium
HB2 Present Law Adjustments - One-Time Only			
PL - 1 Security Equipment Replacement	55,074	0	55,074
PL - 105 Pay Off the IRIS Computer System Loan	2,100,000	0	2,100,000
PL - 106 Replace the Remainder of the POINTS System	3,000,000	1,000,000	4,000,000
PL - 2019 Database Maintenance Costs - OTO	25,000	25,000	50,000
PL - 2022 Water Quality Monitoring TMDL Completion-OTO	165,000	165,000	330,000
PL - 2102 Phone System Billings Office-OTO	0	15,000	15,000
PL - 2312 Crow Tribe Settlement - OTO	0	0	0
PL - 3 Enhancement of GCD Database and Business Processes	1,100,000	0	1,100,000
PL - 3 License Plate Re-Issue	3,853,751	496,837	4,350,588
PL - 3506 Build additional UH-1 Helicopter-OTO	200,000	0	200,000
PL - 7000 Computer Server Replacement -	10,000	10,000	
PL - 333 Aircraft Engine Overhaul Contingency OTO	380,000	0	380,000
PL - 111 Additional Job Credits	<u>500,000</u>	<u>500,000</u>	<u>1,000,000</u>
Total HB2 Present Law Adjustments - One-Time Only	\$11,388,825	\$2,211,837	\$13,580,662
HB2 New Proposals - One-Time Only			
NP - 1 Offender Tracking System - Restricted/OTO	1,421,098	174,574	1,595,672
NP - 3 E-Grants and Data Base System	5,000	5,000	10,000
NP - 4 Workload Assessment Study - OTO	75,000	0	75,000
NP - 40 Business & Econ. Dev Outreach - OTO	0	0	0
NP - 5 Purchase Software Licenses - OTO	1,345,000	0	1,345,000
NP - 51 Distant Learning Initiative -OTO	0	0	0
NP - 54 Audiology equipment - Restricted/OTO	85,000	85,000	170,000
NP - 60 2-Yr Education-Develop Common Curriculum	0	0	0
NP - 61 MT Tech Economic Development Resource Center -OTO	0	0	0
NP - 63 Increase Supply of Health Care Workers - OTO	0	0	0
NP - 7001 Additional Grant Money for Loss of C&A Interest	40,000	0	40,000
NP - 7002 Computer Equipment Upgrade	70,000	0	70,000
NP - 722 Emergency Telecommunications Infrastructure - OTO	4,100,000	0	4,100,000
NP - 77 Workforce System Data Collection and Mang. -OTO	0	0	0
NP - 78 Equipment - 2 Year Programs - OTO	2,500,000	2,500,000	5,000,000
NP - 804 Property Tax Computer System	2,750,000	2,750,000	5,500,000
NP - 805 Agricultural/Forest Land Classification System	1,400,000	0	1,400,000
NP - 555 Governor's Efficiency Council - OTO	400,000	0	400,000
NP - 62 Student Education Information Data System	2,455,026	370,974	2,826,000
NP - 63 School Facilities Additional State Contribution	2,372,041	2,403,643	4,775,684
NP - 104 Enhancing Tribal Colleges Programs - OTO	1,000,000	1,500,000	2,500,000
NP - 2409 Water Adjudication Funding OTO	1,000,000	1,000,000	2,000,000
NP - 3200 Low Income Energy Assistance OTO	4,200,000	4,200,000	8,400,000
NP - 3203 Big Brothers Big Sisters OTO	90,000	90,000	180,000
NP - 111 Restore Montana's Agricultural Heritage Program	400,000	400,000	800,000
NP - 111 Department of Revenue Compliance Staff	40,000	80,000	120,000
NP - 4014 Hazardous Waste Cleanup Study	<u>2,000,000</u>	<u>0</u>	<u>2,000,000</u>
Total HB2 New Proposals - One-Time Only	\$27,748,165	\$15,559,191	\$43,307,356
Total HB2 Present Law & New Proposals - One-Time Only	\$39,136,990	\$17,771,028	\$56,888,018
Other New Initiatives - One-Time Only			
Defined Benefit Loan Payback	1,400,000	0	1,400,000
Long Range Building	10,000,000	20,000,000	30,000,000
Cultural Trust Repayment	3,913,000	0	3,913,000
Protested Property Tax Reserve	4,000,000	0	4,000,000
Transfer to Federal Government for State Fund Payout	<u>224,461</u>	<u>0</u>	<u>224,461</u>
Total Other New Initiatives - One-Time Only	\$19,537,461	\$20,000,000	\$39,537,461
Total All Expenditure Initiatives - One-Time Only	\$58,674,451	\$37,771,028	\$96,425,479
Increase Ending Fund Balance to \$80 Million			33,800,000
Total All Expenditure Initiatives - One-Time Only	\$58,674,451	\$37,771,028	\$130,225,479

Figure 25

FUND SWITCHES

Governor Schweitzer recommends a number of additional fund switches. The net impact to the general fund is an increase of \$6.1 million general fund, and a reduction of a like amount of other funds compared to the Martz budget. The funding switches are summarized in the figure below.

Figure 26 Governor Schweitzer Fund Switches from Original Governor Martz 2007 Biennium		
Agency/Change	General Fund	Other Funds
<u>Public Health/Human Services</u>		
Change Tobacco Tax (PSA) to General Fund		
Child Support Enforcement	\$1,263,678	(\$1,263,678)
MIAMI	1,100,000	(1,100,000)
Extended Employment	541,278	(541,278)
Independent Living	457,532	(457,532)
AIDS Prevention	84,000	(84,000)
Poison Control	77,908	(77,908)
Tobacco Tax to I-149*		
Mental Health Services	---	---
Hospice/Home Therapy	---	---
Medicaid	---	---
Adult Mental Health	(198,428)	198,428
Tobacco Prevention Program**	(367,983)	367,983
CHIP Enrollment to 10,900	(3,175,300)	3,175,300
<u>Commerce/Governor</u>		
New Workers Training***	6,170,000	(6,170,000)
<u>Governor</u>		
Mental Health Ombudsman	190,000	(187,975)
Total	<u>\$6,142,685</u>	<u>(\$6,140,660)</u>
*Fund switches occur within state special revenue accounts		
**Part of a larger increase in expenditure of tobacco tax for this purpose		
***Total reduction is almost \$10 million in state special revenue in the 2007 biennium. Both funds include \$2.17 million that would be added in FY 2005, but exclude a \$300,000 nonbudgeted fund transfer that reduces costs.		

General fund would be added to replace tobacco settlement funds for a number of programs in the Department of Public Health and Human Services. Governor Martz had recommended that the funding enacted by the 2003 legislature be maintained, while Governor Schweitzer recommends that the tobacco settlement funds be used for tobacco prevention projects and, along with cigarette tax funds anticipated as a result of the passage of I-149, costs of the Children's Health Insurance Program (CHIP).

Due to concerns about the use of the INTERCAP loan program for the new worker training program in the Governor's Office, Governor Schweitzer also recommends that those costs be funded with general fund. Please note that the total includes \$2.17 million that would be expended in FY 2005. The Governor also recommends that the program be transferred to the Department of Commerce.

A portion of the Mental Health Ombudsman in the Governor's Office was funded with Medicaid funds that can no longer be used for this purpose. The Governor recommends replacing the funding with general fund.



SCHWEITZER STATEWIDE (NON-HB2) BUDGET PROPOSALS

SUPPLEMENTAL APPROPRIATIONS

Governor Schweitzer adds \$36.3 million to the original \$12.7 million FY 2005 appropriations recommended by Governor Martz. Of this, \$13.4 million is a new addition and \$22.9 million is a transfer of appropriations from the 2007 biennium as recommended by Governor Martz to FY 2005. Most supplemental appropriations requests are included in HB 3. The new supplementals are described on the next page.

Supplemental Appropriations - Governor Schweitzer		
Fiscal 2005		
Request	General Fund	Other Funds
<u>Maintain Martz Requests</u>		
Judiciary		
District Court Costs	\$5,800,000	\$0
Unfit to Proceed" Costs	1,000,000	
Corrections		
Increased Populations/Overtime	3,000,000	
Governor's Office*		
Elected Official Payout	253,000	
Commissioner of Political Practices*		
Elected Official Payout	9,620	
Justice		
Employee Payout	24,000	
Major Litigation	200,000	36,000
Highway Patrol Retirement Fund	363,762	
Public Health and Human Services		
Child Support Enforcement	857,058	
Foster Care	1,142,942	
Original Governor Martz	\$12,650,382	\$36,000
<u>Additional Funding</u>		
Public Health and Human Services		
Foster Care	\$1,020,000	
Low Income Energy Assistance	1,750,000	
Governor's Office		
New Worker Training**	2,170,000	
Justice		
Highway Patrol Lawsuit Settlement	8,500,000	
<u>Transfer 2007 Biennium to FY 2005</u>		
DNRC		
Crow Tribe Settlement	9,000,000	
Revenue		
Computer System Loan Payoff***	13,900,000	
Additional Governor Schweitzer	\$36,340,000	\$0
Total Governor Schweitzer	\$48,990,382	\$36,000
<u>Other</u>		
Additional, Dept. of Corrections****	\$1,415,617	
<p>*Governor will likely change this request based upon updated information.</p> <p>**Does not Include a net reduction of \$300,000 in a nonbudgeted transfer that will not be in the supplemental bill.</p> <p>***Governor is currently exploring moving entire \$16 million payout cost to FY 2005.</p> <p>****Additional potential supplemental amount discussed with Corrections Subcommittee on January 12.</p> <p>Figure 27</p>		

As of this writing, the Governor will likely adjust the elected official payouts to reflect actual costs (the initial Governor Martz recommendation was an estimate).

Foster Care – The department recently learned that the federal government had determined that a number of youth did not meet the criteria for federal participation in the cost of foster care, increasing general fund costs by \$3.7 million. Governor Martz requested a general fund supplemental of \$1.1 million, with the remaining cost of \$2.6 million to be mitigated with reductions in other areas of the budget. Governor Schweitzer recommends adding another \$1.0 million general fund to reduce the required mitigation.

Low Income Energy Assistance (LIEAP) – Governor Schweitzer recommends additional funding for the LIEAP program. Coupled with the recommended increases in the 2007 biennium, the Governor increases this program by over \$10 million.

New Worker Training – The Governor proposes general fund to pay anticipated credits due employers participating in the new worker training program.

Highway Patrol Settlement – Consequent to release of the Martz budget, the state settled two class action lawsuits involving highway patrol officers. Governor Schweitzer proposes to pay the costs of the settlement from the general fund.

Transfers from the 2007 Biennium – Governor Martz proposed to use one-time funds to pay off two long-term obligations of the state – the Crow Tribe settlement, and the costs of debt associated with the interactive revenue information system (IRIS). Due to concerns about the expenditure limitation, Governor Schweitzer proposes to spend these funds in the 2005 biennium. The Governor is exploring the possibility of funding all IRIS payout costs in FY 2005. Under the current proposal, \$2.1 million of the total \$16.0 million cost would be paid in FY 2006.

In its January 12 meeting, the Corrections and Public Safety Subcommittee heard a presentation by the Department of Corrections that put the supplemental amount for that agency at \$4.4 million, rather than the \$3.0 million requested by Governor Martz. As of this writing, the Governor has not officially included this amount in his supplemental request.

EXECUTIVE PAY PLAN PROPOSAL

Governor Schweitzer has proposed a higher pay plan for state employees than proposed by Governor Martz. The following figure compares the components of each. The Martz pay plan proposal is in the introduced version of HB13, and the Schweitzer administration will propose amendments to the bill.

The Schweitzer proposal is as negotiated with state employee unions. As shown in Figure 28, it provides for a 3.5 percent increase in FY 2006 and 4 percent in FY 2007, compared to 3 percent per year in the Martz budget. In addition, there is a minimum increase per employee of \$1,005 in FY 2006 and \$1,188 in FY 2007, which results in higher percentage increases for lower grade employees. The insurance adjustment remains the same in both proposals. The pay plan also includes \$75,000 general fund for a training allowance.

The executive budget recommends that the legislature fund a personal services contingency (\$1.5 million general fund, \$3.0 million other funds) for distribution to agencies that cannot meet vacancy savings reductions of 4 percent to the funding calculations for personal services.

Figure 28
State Employee Pay Plan
Comparison of Components
2007 Biennium

Adjustment	Gov. Martz	Gov. Schweitzer
<u>Salary Adjustment</u>		
Fiscal 2006	3%	3.5% or \$1,005*
Fiscal 2007	3%	4.0% or \$1,188*
Effective Date	October 1	October 1
<u>Insurance Adjustment Per Month</u>		
Fiscal 2006	\$46	\$46
Fiscal 2007	\$51	\$51
Effective Date	January 1	January 1

*Whichever is greater

The following compares the cost of each proposal. The total cost of the Schweitzer pay plan, including the contingency fund, is \$37.6 million general fund and \$37.3 million other funds.

Figure 29
State Employee Pay Plan
Comparison of Biennial Costs
2007 Biennium

Component	Gov. Martz		Gov. Schweitzer		Difference	
	General Fund	Other Funds	General Fund	Other Funds	General Fund	Other Funds
Pay Plan Increase	\$29,969,042	\$28,504,600	\$36,035,585	\$34,271,763	\$6,066,543	\$5,767,163
Other						
Training (Biennial)	75,000	---	75,000	---	0	---
Contingency	1,500,000	3,000,000	1,500,000	3,000,000	0	0
Total	<u>\$31,544,042</u>	<u>\$31,504,600</u>	<u>\$37,610,585</u>	<u>\$37,271,763</u>	<u>\$6,066,543</u>	<u>\$5,767,163</u>

See page 80 in Volume 1 for a general discussion of the executive pay plan proposal issues.

REVENUE PROPOSALS

In addition to two revenue proposals included in the Martz budget (Department of Revenue computer system loan and Department of Justice pathologist), the Schweitzer revisions include four categories of new revenue proposals. Two of the four categories increase revenues by \$6.6 million, and two of them reduce revenues by \$7.15 million. The net impact is a \$0.55 million reduction in revenues. Each of the new revenue proposals is discussed below.

ECONOMIC DEVELOPMENT PACKAGE

Three separate proposals are offered that decrease general fund revenue by \$2.5 million in FY 2006 and \$4.1 million in FY 2007:

1. Create an economic development trust fund within the coal severance tax trust – Beginning FY 2006, \$20.0 million would be transferred to the new trust from the permanent coal trust fund and 12.5 percent of coal severance tax collections that had been deposited to the permanent coal trust fund would be deposited to the new trust fund. Because earnings from the permanent coal trust fund are deposited to the general fund, general fund revenues would decrease an estimated \$1.4 million in FY 2006 and \$1.6 million in FY 2007. The same amount of earnings from the new trust fund would be deposited to a state special revenue account to fund economic development activities. This proposal would cap the permanent fund balance at \$20.0 million below the current level.
2. Film industry tax credits – The proposal is for a 15 percent credit for the first \$50,000 of wages paid to each Montanan working on a production and a 10 percent credit for qualified expenditures. The proposal is estimated to decrease general fund revenue by \$1.0 million in FY 2006 and \$2.0 million in FY 2007. Tax credits are: a) capped at \$1.0 million for each production; b) refundable; c) not transferable; and d) sunset December 31, 2008.
3. Expand business equipment tax exemption – Beginning January 1, 2006, the minimum market value of business equipment on which an owner must pay property taxes is increased from \$5,000 to \$20,000. The proposal is estimated to decrease general fund revenue by \$0.2 million in FY 2006 and \$0.5 million in FY 2007. Total property tax revenues are estimated to decrease \$0.9 million in FY 2006 and \$2.5 million in FY 2007. The proposal identifies but does not quantify additional general fund statutory appropriation expenditures to reimburse counties for lost revenue and additional general fund appropriations necessary to replace the lost 6-mill revenue.

ADDITIONAL TAX AUDITORS

The proposal would fund eight additional positions in the Department of Revenue: six additional tax auditors, one lawyer, and one support staff. The additional staff would focus their audit efforts on the individual income and corporate license taxes. The efforts are estimated to increase general fund collections from these two revenue sources by \$1.1 million in FY 2006 and \$2.3 million in FY 2007.

PERMANENTLY RE-AUTHORIZE COURT SURCHARGE

The current \$10 surcharge on criminal and civil court cases for funding of court information technology terminates June 30, 2005. The revenue from the fee is deposited to a state special revenue fund. The proposal would permanently re-authorize the fee and deposit the revenue to the general fund. This additional revenue is estimated to be \$1.6 million each year of the 2007 biennium.

TRIBAL COURT COMMITMENTS TO MONTANA STATE HOSPITAL

The proposal exempts the Indian Health Service from paying for forensic psychiatric evaluations when a defendant is committed to the Montana State Hospital under a tribal court order to determine the fitness of that person to proceed in a criminal case against that person. These payments are deposited to the general fund. With this exemption, it is estimated that general fund revenue would decrease \$0.3 million each year of the biennium.

DEFINED CONTRIBUTION LOAN PAYOFF (HB 36)

The 1999 Legislature passed HB 79, which provided for a defined contribution option to the defined benefit plan. The defined contribution plan began in FY 2003, with the assumption that the loan necessary to start the plan would be repaid by plan members. Due primarily to a lower number of plan participants that make the individual contribution to pay off the loan costly, the Governor recommends that the general fund pay a portion of this cost. This proposal is contained in HB 36.



SCHWEITZER BUDGET REVISIONS – OTHER LFD ISSUES

K-12 LAWSUIT

The April 2004 district court decision that the school funding methodology is unconstitutional and that current state funding is inadequate was upheld in November 2004 by the Supreme Court. The state is directed by the court to find a solution by October 2005. For a discussion of this issue, see page 119 of Volume 1, Legislative Budget Analysis.

The original Martz executive budget did not directly address the public schools funding issue, and primarily provided for a present law budget for schools using the existing statutory formula. While the Schweitzer budget does not directly address the issue in the form of a revised funding methodology, it does provide over \$40 million increased funding for schools, of which over \$35 million is for base aid and facilities payments to schools. The Schweitzer proposal does at least partially address the issue of Indian education funding for all by providing an additional \$1.5 million to develop a curriculum and teacher training for the Indian Education for All program. The Schweitzer budget also provides a much larger entitlement increase for elementary (6 percent) than high school (1.5 percent). This at least partially addresses the court decision that the state had not offered a rational reason for the differences in entitlements between elementary and high school entitlements.

When the Schweitzer and Martz proposals are included, total general fund increases for distribution to schools proposals is \$64 million, and with federal increases of \$35 million, the increase in the total distribution to schools in the executive budget is \$99 million. While these proposals may contribute to a temporary fix for the school funding issue, the long-term solution will likely require a revised school funding methodology that is based on a statutory definition of quality education and on educationally relevant factors.

Governor Schweitzer's revisions for support of public schools are discussed further on page 49 of the "Volume 5 Addendum, Agency Budgets: Schweitzer Revisions."

I-149: CIGARETTE AND TOBACCO TAX INCREASES

The Schweitzer budget revisions include nearly \$61 million in tobacco tax state special revenue increases authorized by the passage of I-149 by voters in November 2004. The Martz budget did not include any proposals for the use of I-149 funds. The allocation of I-149 funds by use and amount, excluding a request for a reserve account, is:

- Small business health insurance assistance, \$12 million
- Prescription drug program, \$16 million
- Increased Medicaid services and provider rates, \$6.5 million
- Medicaid support, \$10.5 million
- Support for the CHIP program, \$7 million

In addition, the Schweitzer revisions include a proposal for creation of a reserve account of \$27 million over several years, including \$8.3 million of FY 2006 tax revenue. The reserve account would be expended from FY 2008 through FY 2011, with the intent of creating funding stability for programs supported by this source of revenue, which is expected to decline.

Several of the executive budget proposals for I-149 tax revenues may need to be examined closely to ensure compliance with statute authorizing the use of these funds (53-6-1201, MCA), including:

- Support of base level Medicaid and Mental Health Services Plan costs
- Support of base level CHIP enrollment levels
- Development of the reserve fund

This issue is discussed further beginning on page 18 of the "Volume 5 Addendum, Agency Budgets: Schweitzer Revisions"

STRUCTURAL BALANCE

GENERAL FUND

Structural balance refers to the balancing of ongoing expenditures with ongoing revenues. If revenues equal or exceed expenditures, then structural balance is achieved. If expenditures exceed revenues, then structural *imbalance* occurs. In the 2005 session, when looking at executive budget revenue estimates and proposed spending levels, legislators face only a slight structural imbalance in the budget, and when legislative revenue estimates are applied, there is a positive structural balance. However, there is some question as to whether some of the projected revenues are truly ongoing.

Figure 30 shows that expenditures proposed in the executive budget for the 2007 biennium exceed estimated revenues (using executive revenue estimates), by \$3.9 million. Use of the Revenue and Transportation Interim Committee (RTIC) estimates, however, results in a positive structural balance of \$22.8 million. However, as pointed out in the analysis of the Martz budget, one might argue that a portion of oil and gas taxes should not be considered ongoing revenue, as this revenue source is likely to go through a period of correction that will result in a lower level of ongoing revenues. Inclusion of one-time sources of revenue results in a misleading estimation of structural balance. Since the executive budget uses the total revenue estimate in its determination of structural balance, it may be necessary to make some adjustments. The following narrative establishes the adjustment necessary for one-time revenues and expenditures to arrive at a comparison of ongoing revenues to ongoing expenditures.

Figure 30

Revenue and Disbursement History General Fund & School Equalization Accounts In Millions										
Fiscal Year	General Fund		Surplus / Deficit	School Equalization		Surplus / Deficit	GF/SEA Revenue	GF/SEA Disburse.	Surplus / Deficit	Biennium Surplus/Deficit
	Revenue	Disburse.		Revenue	Disburse.					
A 84	\$330.305	\$357.387	(\$27.082)	\$242.384	\$261.753	(\$19.369)	\$572.689	\$619.140	(\$46.451)	
A 85	364.522	380.359	(15.837)	281.275	271.016	10.259	645.797	651.375	(5.578)	(\$52.029)
A 86	349.541	366.815	(17.274)	252.899	282.166	(29.267)	602.440	648.981	(46.541)	
A 87	346.690	391.325	(44.635)	263.052	283.428	(20.376)	609.742	674.753	(65.011)	(111.552)
A 88	391.152	370.853	20.299	276.216 *	281.886	(5.670)	667.368	652.739	14.629	
A 89	411.729	388.270	23.459	275.589 *	279.536	(3.947)	687.318	667.806	19.512	34.141
A 90	447.962	432.323	15.639	282.389	287.393	(5.004)	730.351	719.716	10.635	
A 91	420.257	457.612	(37.355)	385.031	391.500	(6.469)	805.288	849.112	(43.824)	(33.189)
A 92	487.036	523.072	(36.036)	393.591 *	398.059	(4.468)	880.627	921.131	(40.504)	
A 93	539.955	523.553	16.402	412.903	405.067	7.836	952.858	928.620	24.238	(16.265)
A 94	480.021	497.921	(17.900)	411.834	406.388	5.446	891.855	904.309	(12.454)	
A 95	646.149	535.461	110.688	289.199 *	409.822	(120.623)	935.348	945.283	(9.935)	(22.389)
A 96	963.193	984.997	(21.804)				963.193	984.997	(21.804)	
A 97	986.570	997.835	(11.265)				986.570	997.835	(11.265)	(33.069)
A 98	1,034.382	1,020.591	13.791				1,034.382	1,020.591	13.791	
A 99	1,068.111	1,043.418	24.693				1,068.111	1,043.418	24.693	38.484
A 00	1,163.641	1,105.598	58.043				1,163.641	1,105.598	58.043	
A 01	1,269.472	1,268.938	0.534				1,269.472	1,268.938	0.534	58.577
A 02	1,265.713	1,355.903	(90.190)				1,265.713	1,355.903	(90.190)	
A 03	1,246.381	1,275.827	(29.446)				1,246.381	1,275.827	(29.446)	(119.636)
A 04	1,381.565	1,282.038	99.527				1,381.565	1,282.038	99.527	
F 05	1,384.639	1,363.481	21.158				1,384.639	1,363.481	21.158	1.049
F 06	1,416.700	1,418.792	(2.092)	Executive Budget **			1,416.700	1,418.792	(2.092)	
F 07	1,461.232	1,463.001	(1.769)	Executive Budget **			1,461.232	1,463.001	(1.769)	(3.861)

* Excludes Education Trust & General Fund Transfers.
 ** Excludes Executive One-Time Proposals
 Note: The 1995 Legislature de-earmarked school equalization revenue to the general fund.

One-time Revenues

The prices for oil and gas reached record levels in the past several months and have since declined. It is not known where the prices might level off, but it is expected to be at a level well below the record highs. For purposes of determining structural balance, an assessment of where oil and gas prices will level off is key. This is discussed in the section titled “Long-Term Stability of General Fund” on page 142 of Volume 1. If it is assumed that the amount of \$80 million of oil revenues is not ongoing revenue, then a structural imbalance results (see Figure 31). Although this is probably a worst-case scenario, it demonstrates the concern regarding the stability or instability of the general fund.

One-time Expenditures

The executive budget balance sheet designates certain expenditures as one-time. Therefore, there is no need to adjust the projected structural balance estimate for one-time expenditures. It is possible, however, that the legislature may budget for some services on a one-time only basis. If this occurs, such expenditures can be used to offset the negative implications of one-time revenue.

Structural Balance 2007 Biennium (Millions)			
Item	Governor Schweitzer Budget	Using RTIC Estimate	Removes Portion of Oil Revenues
Anticipated Revenue	\$2,877.9	\$2,904.6	\$2,904.6
One-Time Revenue	0.0	0.0	(80.0)
Ongoing Revenue	2,877.9	2,904.6	2,824.6
Ongoing Expenditures	2,881.8	2,881.8	2,881.8
Structural Balance	(\$3.9)	\$22.8	(\$57.2)

Figure 31

Expenditure Proposals

There are three other ways in which structural balance can be adversely impacted in subsequent biennia, on the expenditure side:

- Expanded expenditure growth, such as is represented in the proposed budget (approximately 10 percent biennial growth), can adversely impact structural balance. The school funding issue may result in even further expansion of expenditures.
- Realization of delayed implementation of expenditures. Annualization of the 2007 biennium pay plan, as proposed by the executive, will require increased general fund in the 2009 biennium.
- Growth in services rising from expansions in such programs as Medicaid or from increases in prisoner populations supervised by the Department of Corrections. For any increase in annual expenditures, there must be ongoing revenue with which to fund it. In order to attain or maintain a structural balance, annual revenue growth must equal or exceed expenditure growth.

Achieving structural balance is a significant policy issue that the Fifty-ninth Legislature will need to address. If successful, in the 2007 biennium the legislature will make the budget process less problematic for both the executive and legislative branches in subsequent biennia.

EXPENDITURE LIMITATION

Section 17-8-106, MCA, limits the increase in biennial appropriations ("state expenditures") from the general fund, state special revenues, and the cash portion of the capital projects fund to the growth in Montana's personal income. With two exceptions, appropriations for the 2007 biennium cannot exceed appropriations for the 2005 biennium increased by the growth in Montana personal income. Section 17-8-106, MCA, states:

Expenditure limitation -- exception. (1) Except as provided in subsection (2), the state expenditures for a biennium may not exceed the state expenditures for the preceding biennium plus the product of the state expenditures for the preceding biennium and the growth percentage. The growth percentage is the percentage difference between the average Montana total personal income for the 3 calendar years immediately preceding the next biennium and the average Montana total personal income for the 3 calendar years immediately preceding the current biennium.

(2) The legislature may appropriate funds in excess of this limit from the reserve account if:

(a) the governor declares that an emergency exists; and

(b) two-thirds of the members of each house approve a bill stating the amount to be spent in excess of the expenditures limitation established in subsection (1), the source of the excess revenue to be spent, and an intention to exceed the limitation.

(3) Expenditures may exceed the expenditures limitation only for the year or years for which an emergency has been declared.

(4) The legislature is not required to appropriate the full amount allowed in any year under subsection (1).

The Schweitzer budget for the 2007 biennium is below the statutory expenditure limit by \$69.1 million. Under the executive recommendation, the increase in spending in applicable categories that are affected by the limitation will be less than the growth in Montana's personal income between 2000-2002 and 2002-2004, using the statutory calculation method described below.

CHANGES FROM MARTZ BUDGET CALCULATION

The original calculation of the expenditure limitation in Volume 1 (page 111) reported the Martz budget exceeded the limitation by \$12.6 million. As a result, the Martz administration submitted budget revisions after the statutory defined date to move budget authority from the 2007 biennium executive budget proposal to current FY 2005. This action resulted in a higher budget level in the base biennium and a lower budget level in the 2007 biennium. The Schweitzer budget proposed increased 2007 biennium authority, but the revisions also increased authority in the current FY 2005. Additionally, a legal review of the long range planning proposal (HB 5) determined that since the bill has an immediate effective date in FY 2005, the authority must be applied to the base biennium according to the statutory definition. These actions result in a higher expenditure limit. They also bring into question the effectiveness of the expenditure limitation statute under the current statutory calculation formula.

CALCULATION OF LIMIT

The following is a summary of the expenditure limitation calculations applied to the executive budget for the 2007 biennium.

The following types of appropriations are excluded from the calculations:

- Money received from the federal government

- Payments on bonded indebtedness
- Money paid for unemployment or disability benefits
- Money received from the sale of goods and services
- Money paid from permanent endowments, constitutional trusts, or pension funds
- Proceeds from gifts and bequests
- Money appropriated for tax relief
- Funds transferred within state government or used to purchase goods for resale

Four steps are required to determine the expenditure limit:

Step 1 - Determine the base appropriation level for the 2005 biennium

Step 2 - Determine the executive request for the 2007 biennium by summing appropriations for the general fund, state special revenue, and the cash portion of the capital projects fund. Exclude any of the items listed above.

Step 3 - Determine the growth in average personal income for the three years preceding the current biennium (2000, 2001, and 2002) and the three years preceding the next biennium (2002, 2003, and 2004). The growth in Montana's personal income between these two periods is 8.53 percent.

Step 4 - Increase the 2005 biennium base appropriations by the growth in personal income to establish the expenditure limitation. Subtract the executive budget appropriations for the 2007 biennium from the 2005 base limitation. This difference is \$69.1 million.

Compliance

- Figure 32 shows the calculations used to determine the spending limitation for the 2007 biennium. The calculations show that the executive budget recommendations for the 2007 biennium are below the expenditure limit by \$69.1 million.

LFD ISSUE

Although the executive budget is below the statutory expenditure limit, the amount is only \$69 million. This does not leave the legislature much room for additional appropriations for new or enhanced programs. If the legislature provides additional appropriations for education or to spend the \$30 million of cigarette and tobacco tax revenue not contained in the Schweitzer budget, the legislature could come close or exceed the limit. If the legislature wished to exceed the limit, it has the following options:

- Reduce other appropriations from the general fund, state special revenue fund, and/or the cash long-range building program by the amount it wishes to exceed the limit
- As allowed in 17-8-106(2), MCA, if legislation is passed by 2/3 of the members of each house, the limit may be exceeded. The legislation must: 1) state the amount of excess to be spent; 2) the source of the excess revenue to be spent; and 3) an intention to exceed the limitation.
- Repeal 17-8-105 & 106, MCA

Expenditure Limitation Calculation - Schweitzer Budget 2007 Biennium			
<u>Step 1</u>	<u>Fiscal 2004</u>	<u>Fiscal 2005</u>	<u>Biennium</u>
Base Appropriations			
State Expenditures*	\$2,096,946,369	\$2,051,573,454	\$4,148,519,823
Exclusions			
Debt service	(19,754,000)	(19,430,000)	(39,184,000)
Unemployment benefits	(582,718)	(582,718)	(1,165,436)
Proceeds of gifts or bequests**	0	0	0
Tax relief	0	0	0
Transfers	0	0	0
Total Exclusions	(\$20,336,718)	(\$20,012,718)	(\$40,349,436)
Base Appropriations	<u>\$2,076,609,651</u>	<u>\$2,031,560,736</u>	<u>\$4,108,170,387</u>
<u>Step 2</u>	<u>Fiscal 2006</u>	<u>Fiscal 2007</u>	<u>Biennium</u>
Executive Budget			
State Expenditures*	\$2,256,214,255	\$2,171,392,230	\$4,427,606,485
Exclusions			
Debt service	0	0	0
Unemployment benefits	(18,394,667)	(18,523,764)	(36,918,431)
Proceeds of gifts or bequests**	(522,975)	(522,975)	(1,045,950)
Tax relief	0	0	0
Transfers	0	0	0
Total Exclusions	(\$18,917,642)	(\$19,046,739)	(\$37,964,381)
Executive Appropriations	<u>\$2,237,296,613</u>	<u>\$2,152,345,491</u>	<u>\$4,389,642,104</u>
<u>Step 3</u>	<u>Income</u>	<u>3-year Average</u>	<u>Growth %</u>
Personal Income Growth			
Calendar Year 2000	20,716,220,000		
Calendar Year 2001	22,281,006,000		
Calendar Year 2002	22,526,118,000	21,841,114,667	
Calendar Year 2003	23,651,446,000		
Calendar Year 2004 est.	24,937,723,000	23,705,095,667	8.53%
<u>Step 4</u>			
Expenditure Limitation			
Base Appropriations plus Growth		\$4,458,772,985	
Executive Budget		<u>4,389,642,104</u>	
Expenditure Balance		\$69,130,881	
* Appropriations of general fund, state special, cash capital projects			
** The state accounting system does not track appropriations of donated revenue.			
Figure 32			

**LFD
ISSUE**

The method differs with the method used to calculate budget comparisons required under 17-7-151, MCA, thus resulting in possible confusion by comparing different parts of the executive budget with different bases. Because the effective date of appropriation legislation can significantly alter the calculation of the expenditure limitation, the legislature may want to consider the value of the expenditure limitation and amend it to make it more effective or eliminate the requirement if it is found to be of little or no value.

FUND BALANCE ADEQUACY/RESERVES

The provision of an adequate general fund balance is essential to achieving a sound financial foundation. The level of fund balance reserves must be sufficient to offset the volatility of revenues and the potential for unforeseen expenditure increases. This is even more important since Montana is one of only three states that do not have a rainy day fund provision. To this end, the legislature will need to determine what amount of ending fund balance is sufficient to ensure budget stability.

National experts such as the National Conference of State Legislatures (NCSL) recommend a reserve fund balance of 3 to 5 percent of total appropriations or revenues. For Montana, a minimum 3 percent reserve equates to an \$87 million ending fund balance. The Martz executive balance sheet showed an ending fund balance of over \$162 million, but recommended a fund balance of \$80 million, or 2.7 percent, noting that school funding and other unresolved issues (such as the highway patrol lawsuit settlement) may utilize part of the \$162 million reserve. The Schweitzer budget revisions balance sheet leaves a fund balance of nearly \$80 million, consistent with the recommendation in the Martz budget proposal. While slightly under the recommended minimum 3 percent level, it is significantly higher than fund balance reserve allowances in prior legislative budgets (e.g., \$46 million for the current 2005 biennium).

It should be noted that the \$80 million fund balance does not include any specific reserve for wildfire suppression or declared disasters and emergencies. Expenditures for these events occur every biennium, averaging nearly \$15 million per biennium (see the discussion on page 11). In addition, there is no specific reserve for agency supplemental appropriations, which have never been less than \$11.5 million in the last 10 biennia, and average nearly \$25 million per biennia (see Volume 1, page 77). In total, the average cost of wildfires, emergencies, and supplemental appropriations would consume about half of an \$80 million reserve. Yet the most volatile component of the state budget is revenue estimates (a 1 percent variation would be nearly \$30 million), and allowances for revenue variations should be the primary purpose of a fund balance reserve.



AGENCY BUDGET REVISIONS

TABLE OF AGENCY BUDGET REVISIONS

The Governor Schweitzer budget revisions include over \$74 million of proposed increases to the Martz agency budgets in HB2. These proposals are summarized on page 4 of this report, and the table below and on the next page provides a list of all proposed increases by decision package, in subcommittee section and agency order. The descriptions and LFD issues and comments related to these proposals are provided in the "Volume 5 Addendum – Agency Budgets: Schweitzer Revisions".

Figure 33A
Total Changes - Governor Schweitzer
2007 Biennium

Section/Agency/Proposal	General Fund	State Funds	Federal Funds	Total
Section A				
<u>Judiciary</u>				
Continue Information Technology Automation	\$3,870,000	\$0	\$0	\$3,870,000
Clerk of Court Operating Expenses	12,000			12,000
<u>Governor's Office</u>				0
Efficiency Council	400,000			400,000
Transfer New Worker Training Program		(9,994,219)		(9,994,219)
Miscellaneous Adjustments	378,000			378,000
Federal Relations Office- Washington D.C.	500,000			500,000
Coordinator of Indian Affairs Salary Increase	50,000			50,000
Mansion Maintenance	50,000			50,000
Air Transportation	150,000			150,000
Governor's Aircraft Engine Overhaul	380,000	380,000		760,000
Marketing Montana Program	1,000,000			1,000,000
Mental Health Ombudsman Fund Switch	190,000		(187,975)	2,025
<u>Revenue</u>				
Auditors to Increase Revenue	1,120,000			1,120,000
Move Portion of IRIS Payoff to FY 2005	(13,900,000)	0	0	(13,900,000)
Total Section A	(\$5,800,000)	(\$9,614,219)	(\$187,975)	(\$15,602,194)
Section B				
<u>DPHHS</u>				
Big Brothers/Sisters	\$180,000	\$0	\$0	\$180,000
Delete Decision Package to Use Certain Tobacco Funds	(193,061)	(2,669,942)		(2,863,003)
Mental Health Services Fund Switch		0		0
Independent Living Fund Switch	457,532	(457,532)		0
Hospice/Home Therapy Fund Switch		0		0
Child Care	151,836	663,805		815,641
Child Support Enforcement Fund Switch	1,263,678	(1,263,678)		0
MIAMI Fund Switch	1,100,000	(1,100,000)		0
Adult Mental Health Fund Switch	(198,428)	198,428		0
Medicaid Fund Switch		0		0
Extended Employment Fund Switch	541,278	(541,278)		0
AIDS Prevention Fund Switch	84,000	(84,000)		0
Poison Control Fund Switch	77,908	(77,908)		0
Tobacco Prevention Program Expansion	(367,983)	9,033,093	0	8,665,110
Extend CHIP Enrollment to 10,900, Fund Switch	(3,175,300)	3,175,300	0	0
Cigarette Tax (I-149) Programs		45,200,000		45,200,000
Expand CHIP Enrollment by 3,000		4,161,951	13,054,184	17,216,135
Low Income Energy Assistance (LIEAP) Increase	8,400,000			8,400,000
Foster Care Clothing Increase	40,000			40,000
Foster Care Increase	2,000,000			2,000,000
TANF Increase	0	0	(762,232)	(762,232)
Total Section B	\$10,361,460	\$56,238,239	\$12,291,952	\$78,891,651

(Continued on next page)

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Figure 33B Total Changes - Governor Schweitzer 2007 Biennium				
Section C				
<u>DEQ</u>				
Environmental Site Remediation and Study	\$2,000,000	\$0	\$0	\$2,000,000
<u>Livestock</u>				
Additional Meat Inspectors	34,998		34,998	69,996
<u>DNRC</u>				
Resume Agricultural Heritage Program	800,000			800,000
Water Adjudication Acceleration	2,000,000			2,000,000
Move Payment of Crow Tribe Settlement to FY 2005	(9,000,000)			(9,000,000)
<u>Commerce</u>				
New Worker Training Program Fund Switch and Transfer	4,000,000			4,000,000
Proceeds from Coal Tax Economic Development Subfund		2,971,000		2,971,000
Indian Country Economic Development Program	1,000,000			1,000,000
Made in Montana Program	1,000,000	0	0	1,000,000
Total Section C	\$1,834,998	\$2,971,000	\$34,998	\$4,840,996
Section D				
<u>Justice</u>				
Forensics Lab Additional Staff	\$220,000	\$0	\$0	\$220,000
<u>Military Affairs</u>				
National Guard Scholarship Program	500,000			500,000
<u>Corrections</u>				
Eliminate Inmate Fund Funded with Statutory Appropriation	0	(720,000)	0	(720,000)
Total Section D	\$720,000	(\$720,000)	\$0	\$0
Section E				
<u>OPI</u>				
Indian Education for All	\$1,504,095	\$0	\$0	\$1,504,095
Increased Base Aid Entitlement Payments/Special Ed Increase	30,670,095			30,670,095
School Facilities Payments	4,775,684			4,775,684
Education Information Database Development	2,826,000			2,826,000
Replacement of Lost I&I Revenues	1,003,295			1,003,295
<u>MSDB</u>				
Repair and Maintenance Increase	150,000			150,000
Replacement of Student Computer Resources	50,000			50,000
Teacher Salaries Adjustments	300,000			300,000
<u>MUS</u>				
Student Assistance - Need Based Aid	2,000,000			2,000,000
Student Assistance - Best and Brightest	3,000,000			3,000,000
Non-Beneficiary Tribal College Student Assistance	303,500			303,500
Enhance Tribal Colleges	2,500,000			2,500,000
Eliminate Martz Shared Leadership Initiative	(4,903,528)			(4,903,528)
Replace Reduced 6 Mill Levy Interest	42,499	(42,499)		0
Total Section E	\$44,221,640	(\$42,499)	\$0	\$44,179,141
Total Changes from Gov Martz - 2007 Biennium	\$51,338,098	\$48,832,521	\$12,138,975	\$112,309,594
Total Expenditures Moved to FY 2005	22,900,000	0	0	0
Total Change w/o Moved Expenditures	\$74,238,098	\$48,832,521	\$12,138,975	\$112,309,594

INDEX FOR VOLUME 5

(For Details of the Martz Budget Proposal, see Volumes 1, 3, and 4)

Agency Budget Revisions, Table of	41
Balance Sheet	12
Biennial Budget Comparison	13
Budget	
By Program Area	16,18
By Fund Source	20
Budget Highlights.....	13
Budget Revisions Overview	1
Cigarette and Tobacco Tax Increases (Initiative 149)	34
Defined Contribution Loan Payoff	32
Executive Pay Plan Proposal.....	29
Expenditure Limitation	37
Fund Switches	26
Fund Balance Adequacy/Reserves.....	40
General Fund Projection	7
General Fund Recommendations	1
Initiative 149, Cigarette and Tobacco Tax Increases.....	34
K-12 Lawsuit	33
New Initiatives.....	22
One-Time-Only Expenditure Proposals	24
Overview, Governor Schweitzer Budget Revisions/Priorities	1
Projected Ending Fund Balance	
2005 Biennium	7
2007 Biennium	9
Difference from Executive Proposal.....	10
Revenue Proposals	30
Structural Balance	35
Supplemental Appropriations – FY 2005	27

An index for Volumes 1 through 4 of the Legislative Budget Analysis 2007 Biennium can be found at the end of *Volume 1 – Statewide Perspectives*.